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Papers based on application oriented research or field studies in the areas of industry, commerce, business studies and management are invited. The length of a paper including tables, diagrams, illustrations, etc., should not exceed 20 double space pages. Short communications (not more than 5 double spaced pages) relating to review articles, report of conferences, summary/views on various governments reports , debatable issues, etc., are also published. Book reviews and summary of Ph.D. dissertations not exceeding two double spaced pages, are welcome. Manuscripts sent for publication in this journal should not have been published or sent for publications elsewhere. All correspondence will be held with the senior (first) author only.

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Dividend Payout Policy

An Empirical Analysis of Indian Corporate

SANJAY J. BHAYANI

In the present paper an attempt has been made to assess the dividend payout policies of Indian Companies. For the purpose of study BSE Sensex -30 companies have been selected as sample for the study. To study impact of profitability, liquidity and size of business on dividend payout regression analysis were carried out. An attempt has also been made to calculate estimated dividend payout based on regression results. The result of the study indicates dividend policies of Indian companies were highly influenced by profitability and liquidity of the firm. The major companies follow conservative dividend policy.

Introduction

Dividend policy is one of the most controversial subject in finance. Dividend policy is one of the most important financial policies, not only from the viewpoint of the company, but also from that of the shareholders, the customers, the workers, regulatory bodies and the Government. Finance scholars have engaged in extensive theorizing to explain why companies should pay or not pay dividends. Lintner, 1956; Brittain, 1964; Modigliani and Miller, 1961; Pettit, 1972; Black and Scholes 1973, Michael, Thaler and Womack, 1995; Dhillon and Johnson, 1994; Amibud and Murgia, 1997; Charitou and Vafeas, 1998, studies has determined on the developed countries, the decision between paying dividend and retaining earnings has been taken seriously by both investors and management, and has been the subject of considerable research by economists in the last four decades.

Financial economists have therefore, acknowledged the after tax earnings of any business firm as an important internal source of investible funds and also a basis for dividend payments to shareholders. The decision to retain, reinvest or pay out after tax earnings in form of cash or stock dividend is important for the realization of corporate goal which is the maximization of the value of the firm (Soyode, 1975), (Oyejide, 1976), (Ariyo, 1983). In this study we analyse the impact of profitability, liquidity and size of the business operations of selected firms on its dividend policy of corporate firms in India. Initially, we examine the main determinants of dividend decisions of corporate firms in India using pooled cross sectional data and address shortcomings of prior studies by presenting a more comprehensive model of dividend policy.

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Literature Review

The most primitive attempt to explain dividend behavior of companies has been credited to John Lintner (1956) who conducted his study on American Companies in the middle of 1950s. Since then there has been an ongoing debate on dividend policy in the developed markets resulting in mixed, controversial and inclusive results. Miller and Modigliani (1961) view dividend payment as irrelevant. According to them, the investor is indifferent between dividend payment and capital gains. Black (1976) poses the question again, "Why do corporations pay dividends?" In addition, he poses a second question, "Why do investors pay attention to dividends?" Although, the answers to these questions may appear obvious, he concludes that they are not. The harder we try to explain the phenomenon, the more it seems like a puzzle, with pieces that just do not fit together. After over two decades since Black's paper, the dividend puzzle persists. Dakshinamurthy and Narasimha Rao (1978) has conducted empirical research and he has tested Speed of Adjustment (Dividend) model in Indian Chemical Industry for the period of 1960-1973 and he finds that the Cash Flow Model explains better the corporate dividend behaviour in the Indian Chemical Industry as against the basic Linter's model.

Gupta and Sharma (1981) have made an attempt to study the dividend behaviour of 112 tea companies of India and they concluded that Linter's model is applicable to the tea industry. Narasimhan and Vijayalakshmi (2002) analyze the influence of ownership structure on dividend payout of 186 manufacturing firms. Regression analysis shows that promoters' holding as of September 2001 has no influence on average dividend payout for the period 1997-2001. Oza (2004) study on thirty non financial Indian companies dividend behaviour, finds that current earnings is the most influencing factor while deciding on dividend policy followed by pattern of past dividends. Reddy (2004) has examined the dividend behaviour of Indian corporate firms over the period 1990-2001 of companies listed on NSE and BSE. He concluded that dividend changes are impacted more by contemporaneous and lagged earnings performance rather than by future earning performance. Sur (2005) has tried to study the dividend payout trends of Colgate Palmolive Ltd. And concluded there was a significant deviation between actual DPR and estimated DPR. George and Kumudha (2005) has tested Linter Model in Hindustan Construction Co. Ltd. and finds that current year's dividend per share is positively related to current year's earning per share and previous year's dividend per share. A Study of Dividend Policy of Indian Companies was carried out by Singhania (2007) on the 590 listed Manufacturing firm of India over the period of 1992-2004. She finds that average dividend per share increased significantly during the study period. Bhayani (2008) has conducted a study on the dividend policy behaviour of BSE 30 companies of India for the period of 1996-97 to 2004-05. He finds that the linter model of dividend is followed by the firm under study. Mishra and Narender (1996) analyze the dividend policies of 39 state-owned enterprises (SoE) in India for the period 1984-85 to 1993-94. They find that earnings per share (EPS) are a major factor in determining the dividend payout of SoEs.

Narasimhan and Asha (1997) discuss the impact of dividend tax on dividend policy of firms. They observe that the uniform tax rate of 10 percent on dividend as proposed by the Indian union budget 1997-98, alters the demand of investors in favour of high payouts rather than low payouts as the capital gains are taxed at 20 percent in the said period. Rao and Moyer (1994) developed a theoretical model to study the role of regulatory climate in capital structure decisions of regulated electric utilities. Their model predicts that utilities will react to their regulatory climate by adjusting capital structure. They also provide cross sectional and time series empirical support for their model from their data. They do not, however, comment on the dividend policy issues of (regulated) public utilities that are an integral part of a firm's capital structure decisions.

Mohanty (1999) analyzes the dividend behaviour of more than 200 firms for a period of over 15 years. He finds that in most bonus issue cases firms have either maintained the pre-bonus level or only decreased it marginally there by increasing the payout to shareholders. The study also finds that firms that declared bonus during 1982-1991 showed higher returns to their shareholders compared to firms which did not issue bonus shares but maintained a steady dividend growth. He finds evidence for a reversal of this trend in the 1992- 96 periods. He attributes such a reversal in trend to the changed strategy of multi-national corporations (MNCs) and their reluctance to issue bonus shares. In summary, the literature suggests that there are different factors that determine dividend payout policy of firms.

Objectives of the Study

The primary objectives of the study are:

- To recognize the factors influencing on the dividend payout policies of the Indian firms.
- To identify management attitudes towards dividend payout with estimated DPR and actual DPR.

Methodology

Sample Selection: The present study has been based on BSE 30 companies. BSE Sensex covered diversified industries consisting of Textile & Clothing, Pharmaceuticals & Chemicals, Cement, and Engineering & Electrical products etc. Reason behind the selection of BSE 30 is that Indian Stock Market is highly influenced by the BSE 30 index. Researcher has tried to study the dividend payout practices of BSE 30 companies which are significant for deciding dividend policy of other Indian corporate.

The study is based on secondary data. The data are retrieved from Capitaline database provided by the Capital Market. The initial data set includes the universe of BSE 30 Indian Private Sector firms. The period of study is 1996-97 to 2006-07. Three companies (Bharati Airtel Ltd., Reliance Communication Ltd., and Tata Consultancy Services Ltd.) were dropped from the sample due to non availability of the data for entire period.

Data Analysis: For the purpose of analysing the data various ratios have been used. For the study of correlation among various variables correlation analysis also used. To identify the factors influencing on dividend payout of Indian firms multiple regression analysis has been carried out and based on this model estimated DPR have been found out and deviations form actual DPR have been also tested by using t test. For actual DPR average DPR of entire study period have been calculated.

For judging factors influencing on dividend payout policies of Indian firm following model has been developed.

$$DPR = \beta_0 + \beta_1 \text{ EPS} + \beta_2 LR + \beta_3 TA$$

Variables of the Study

Dividend Payout Ratio: This ratio indicates what percentage of the firms earnings, after tax less preference dividend is being paid to equity shareholders in the form of dividends. It is computed as follows:

$$DPR_{j,t} = \frac{DPS_{j,t}}{EPS_{i,t}}$$

Where, DPRj,t is dividend payout ratio, $DPS_{j,t}$ refers to amount of dividend per share paid by the company j in year t and $EPS_{j,t}$ refers to earnings per share for company j in year t.

Dividend PerShare: It shows how much company has paid out. It is calculated as follows:

$$DPR_{j,t} = \frac{\text{Dividend}_{j,t}}{NOS_{i,t}}$$

Where, $DPS_{j,t}$ refers to amount of dividend per share paid by the company j in year t, Dividend refers to amount of dividend paid by company j in year t and $NOS_{j,t}$ refers to number of outstanding shares for company j in year t.

Liquidity Ratio: It refers to the ability of a firm to meet its short-term obligations. It is calculated as follows:

$$LR_{j,t} = \frac{\text{Liquid Assets}_{j,t}}{\text{Liquid Liabilities}_{i,t}}$$

Where, Liquid $\text{Assets}_{j,t}$ includes cash and book debt of the company j in year t. Liquid Liabilities includes creditors and other short term liabilities other than bank overdraft of the company j in the year t.

Total Assets: Size is expected to be an important determinant of firm performance. This variable may be important if economies of scale operate. Size as measured refers to total assets employed in the business. Growth in size is expected to reflect the direction of change in operating efficiency. In the present study natural logarithm of total assets of the firm has been used as independent variable.

Earning Per Share: Earning per share is arrived at by dividing the earning available to the equity or common shareholders by the number of outstanding shares.

$$EPS_{j,t} = \frac{PAT_{j,t} - Preference\ Dividend_{j,t}}{NOS_{i,t}}$$

Where, $EPS_{j,t}$ refers to earnings per share of the company j in year t, PAT refers to Profit After Tax of the company j in year t, Preference dividend means dividend paid by company j on it's preference share capital and $NOS_{j,t}$ refers to number of outstanding shares for company j in year t.

Analysis

The descriptive statistics of the variables of the study has been presented in the Table 1. The mean value of DPS was Rs. 109.807, while its maximum value was Rs. 394.09 which reflects the high standard deviation (11442.219) in the DPS among the sample companies. The average dividend pay out ratio of sample companies was 12.58, which indicates higher retention of profit by sample companies. The minimum EPS of sample companies were Rs. 7.04 and maximum EPS were Rs. 101.83. In liquidity ratio of sample companies showed a stable position. The volumes of total assets among the sample companies were highly deviated and the value of Standard deviation was too high.

Table 1: Descriptive statistics

	Minimum	Maximum	Mean	Std. Deviation	Variance
DPS	8.970	394.090	109.807	106.968	11442.219
DPR	11.700	67.120	27.563	12.589	158.479
EPS	7.040	101.830	33.480	23.829	567.816
LR	0.230	3.450	1.103	0.871	0.758
TA	1046.870	285060.070	22337.119	54646.322	2986220469.272

To study the relationship among the various variables of study correlation analysis was carried out. It is revealed from the table that DPS has partial positive correlation with DPR, and DPS. The values of r were 0.328 and 0.349 with DPR and DPS respectively, and both the variables were significant at 5 percent level. The correlation value of r between DPS and TA was –0.166. This indicates when size of assets increased the DPS reduces. The value of r of liquid ratio indicates lack of correlation among liquidity and dividend per share.

Table 2: Correlation

	DPS	DPR	EPS	QR	TA
DPS	1				
DPR	0.328*	1			
EPS	0.349*	-0.217	1		
QR	0.040	-0.335*	0.228	1	
TA	-0.166	-0.185	0.064	0.091	1

* Correlation is significant at the 0.05 level.

The multivariate regression analysis of above model has been presented in Table 3. As per year wise pooled cross section of sample companies regression results indicates that independent variables EPS and LR were found to be significant at 1 percent level of significant with standardized beta coefficient of -0.079 and -4.354 respectively. The t value of EPS and LR were 2.48 and 3.01 respectively. The TA was not found significant with DPR. So, it can be concluded the dividend payout policies of the sample companies highly influenced by earnings of the companies and liquidity position of the companies. This result has supported by the Sur (2005). The over all model is also significant with R^2 value of 0.68.

Table 3: Multivariate regression analysis

Year	Constant	EPS_{ti}	LR_{ti}	TA_{ti}	R^2	F Value
Cross Section of Sample Companies Pooled						
Coefficient	37.690	-0.079	-4.354	-0.302	0.68	5.03*
t value	2.256	2.48*	3.01*	-0.91		

* t and F value is significant at 5% level.

To evaluate the dividend pay out policies of sample companies the estimated DPR has been calculated based on above regression equation and the deviation between actual DPR and estimated DPR have been presented in Table 4. It shows the actual DPR and estimated DPR and excess/shortage of DPR of sample companies. From the tables it reveals that out of 27 sample companies the 15 companies DPR were less as compared to its estimated DPR. The paired t value of actual dividend and estimated dividend was also found significant at 1 percent level of significance. So, it can be concluded the majority of the sample companies were conservative in payout of dividend to its equity shareholders.

Conclusion

The study shows that these companies have paid constant dividend and follows stable dividend policies. The multiple regression results indicate that the earning per share and liquidity ratios were found significant. It shows that profitability of the firm and liquidity position of the firm highly influencing factors in determining dividend policies of Indian companies. The estimated dividend payout based on regression results indicates major companies follows conservative dividend payout policies. It means the top management believes that retained earnings will give higher return and it results in higher value of the firm.

Table 4: Estimated dividend payout ratio

Name of Company	Actual DPR	Estimated DPR	Excess/ Shortage
Associated Cement Cos. Ltd.	45.348	32.996	12.352
Bajaj Auto Ltd.	24.909	27.301	-2.392
Bharat Heavy Electricals Ltd.	16.582	30.749	-14.167
Cipla Ltd.	17.105	29.985	-12.880
Dr. Reddy'S Laboratories Ltd.	18.719	26.955	-8.237
Grasim Industries Ltd.	23.346	27.178	-3.832
Gujarat Ambuja Cements Ltd.	34.210	31.455	2.756
HDF C Bank Ltd.	24.632	24.669	-0.037
Hero Honda Motors Ltd.	35.355	30.158	5.197
Hindalco Industries Ltd.	12.358	20.001	-7.644
Hindustan Lever Ltd.	67.125	31.558	35.567
Housing Development Finance Corpn. Ltd.	36.719	20.312	16.408
ICICI Bank Ltd.	34.288	20.085	14.203
ITC Ltd.	26.360	30.123	-3.764
Infosys Technologies Ltd.	19.017	16.437	2.580
Larsen & Toubro Ltd.	40.255	31.713	8.542
Maruti Udyog Ltd.	11.699	30.012	-18.313
NTP C Ltd.	21.828	31.428	-9.600
Oil & Natural Gas Corpn. Ltd.	27.797	28.562	-0.764
Ranbaxy Laboratories Ltd.	40.853	30.544	10.309
Reliance Energy Ltd.	22.973	29.329	-6.356
Reliance Industries Ltd.	18.367	29.008	-10.642
Satyam Computer Services Ltd.	19.249	19.169	0.080
State Bank Of India	15.416	24.362	-8.946
Tata Motors Ltd.	38.475	32.197	6.278
Tata Steel Ltd.	37.577	30.780	6.797
Wipro Ltd.	13.622	27.178	-13.557
Paired t Value -0.001*			

* tvalue is significant at 1% level.

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Financing the Poor through SHG-Bank Linkage Programme

B. Chhatoi, A. Shanti and K. K. Nayak

SHG concept on the one hand seems to solve the problems of the banks in financing the poor and on the other hand building human capital through self realization and self initiative of its members. Hence, linking of SHGs with the banks appear to be the right answer in alleviating poverty. It has been observed, the programme of linking SHGs with banks, launched by NABARD has scaled enviable heights and has produced expected impact on the poor. If the SHGs, which form the cornerstone of the programme are given due attention by all concerned, without being polluted or formed in a haste to achieve targets ignoring quality, the programme is going to deliver and will not only remain the largest programme of poverty alleviation in world but will be an example for other countries to follow.

Introduction

As per the broad policies enshrined in the constitution of India – "Justice: Social, Economic and Political", since independence it has been the constant endeavour of successive governments to reduce the gap between the rich and the poor. Various plans have been framed, programmes have been executed, lots of money has been spent, yet eradication of poverty has remained a distant dream. It has been presumed that the rural poor do not have any capacity to save. They need to be financed at concessionary rate of interest and at relaxed terms. They mostly need consumption loans as they are not in a position to arrange a square meal per day.

Basing on these assumptions, all the credit programmes launched by the government are characterized by subsidized interest rates, easy loan terms including very low or nil down payment, long loan maturities and long grace periods. Savings has not been recognized as a source of fund. Most of the rural credit systems rely on either concessionary refinance from financial institutions or international donors. It is a well known fact that subsidized credits do not always reach the poor. Whatever amount reaches the poor carries a certain political aura, thereby, eroding the credit discipline. We tend to evaluate these programmes in terms of achievement of quantitative target fixed before them overlooking the manner in which they were achieved. They either ignore or give less emphasis to the fact that building of human

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capital through self realization and self initiative is of greater importance than providing credit in fighting poverty.

On the other hand, main stream financial institutions which constitute the core financial infrastructure of the country are reluctant to finance the poor on the ground that these are neither economic nor commercial. But after evolution of Self Help Group (SHG) concept, which is capable of removing the road blocks in the path of financing the poor by the financial institutions and to build the human capital through self realization and self initiative of its members, a silver lining is quite visible in the effort of mainstreaming the poor and eradication of poverty. Hence, SHG-Bank linkage programme has generated so much heat in recent times.

SHG-Bank Linkage Programme in India

Realizing the prospect of SHG-Bank linkage in financing the poor in cost effective and sustainable meaner, NABARD launched a pilot project for linking 500 SHGs with banks in the year 1992. Under the programme the concerned bank under whose service area the SHG operates together with NABARD identify the group to be covered under the project. NGO, if any, operating in the area is also involved in the process. As per the NABARD's circular No.DPD/104 dated 26th February 1992 a group is selected on the basis of the following criteria:

- The group should have been in active existence for at least a period of six months
- The group should have successfully undertaken savings and credit operation from its own resources
- The group operates in a democratic manner
- The group maintains proper accounts/records
- The banker should be convinced that the group has not come into existence only for the sake of participation in the project and availing benefits thereunder. There should be genuine need to help each other and work together among the members.
- The SHG's members should preferably have homogeneous background and interest.
- The interest of the NGO, or the Self Help Promoting Institution (SHPI) concerned, if any, in the group is evident and the agency is helping the SHG by way of training and other support for skill up-gradation and proper functioning.

The concerned bank decides on the suitability of a particular branch to be engaged in the project. Once the SHGs and branches are identified the linkage programme starts. The banker is expected to provide credit in bulk directly to the group. The group in turn would undertake on lending to the members. The quantum of credit given to the group should be in proportion of savings mobilized by the group. It could vary from 1:1 to 1:4 depending on the assessment of the SHGs by the bank. There are three models of credit linking

Model I - SHG formed and financed by banks: In this model banks themselves take up the work of forming and nurturing the groups, opening their savings accounts and providing the bank loan.

Model II - SHGs formed by formal agencies, other than banks, but directly financed by banks: Here the NGOs and formal agencies in the field act only as facilitators. They facilitate organizing, forming and nurturing of groups, and train them in thrift and credit management. Banks give loan directly to those SHGs.

Model III - SHGs financed by banks using NGOs and other agencies as financial intermediaries: Under this model, where banks face constraint the NGOs and other formal agencies like SHG Federation, NBFCs bank are encouraged to approach a suitable bank for bulk loan assistance. This, in turn, is used by these agencies for on-lending to the SHGs.

NABARD also provides various support facilities like 100 percent refinance to the participating banks, organizing exposure and awareness programmes for participating agencies, developing agency specific training modules, course materials, training supplements etc. It also provides promotional grant support to NGOs, RRBs, DCCBs, Farmers' clubs and individual volunteers to take up the role of promoting and nurturing quality SHGs. It brings about publications that assist different stakeholders in experience sharing, awareness creation and capacity building. It also takes up innovative pilot projects for improving the outreach as well as sustainability of the programme.

In two years of launching of the pilot project, i.e. by 30th June 1994, 637 groups were linked with 16 commercial banks and 12 RRBs. The total loan sanctioned by banks amounted to Rs.7.9 million and refinance released by NABARD amounted to Rs.7.6 million (Nanda, 1995). Encouraged by the response of banks the programme was launched at national level in the year 1996 with the aim of providing about one-third of the rural poor with improved access to financial services by 2008. As the study reveals, the programme scaled enviable heights in achieving its objectives.

Table 1 shows that by 31st March 1999 there were 32,995 SHGs linked to the banks, but by 31st March 2005 the figure scaled to 1,618,456. In the year 2000 alone there was a growth of 248 percent over the previous year's figures. Though the growth figures declined in the subsequent years an annual average growth rate of 91 percent was maintained during the period under study. Similarly, bank loans to linked SHGs were just Rs.571 million on 31st March 1999, but it increased to Rs.68,985 million by the year 2005. In the year 2000 along there was a growth of 228 percent. Though the growth declined in subsequent years, the annual average rate of growth during the period under study was 121 percent.

Table 1: Cumulative progress of SHG-Bank linkage programme during 1992-2005

Up to end March	SHGs Financed	% Growth	% (Rs. Million)	Bank loan Growth
1999	32,995	-	571	-
2000	1,14,775	248	1,930	228
2001	2,63,825	130	4,809	149
2002	4,61,478	75	10,263	113
2003	7,17,360	55	20,487	100
2004	10,79,091	50	39,042	91
2005	16,18,456	50	68,985	77
Average Annual Rate of Growth	-	91	-	121

Source: Progress of SHG-Bank linkage in India 2004-05, NABARD

Table 2 reveals that though there are three models of credit linkage of SHGs with banks, Model-II continues to enjoy major share with 72 percent of total number of SHGs financed up to 31st March 2005. This indicates that initially existing SHGs formed by other agencies are being linked to the banks. The rising trend of financing through Model-I, i.e. from 13 percent in 2001 to 21 percent in 2005, points towards increasing interest of the banks in forming and nurturing SHGs. At the same time the declining trend of the Model-III, i.e. from 11% in 2001 to 7% in 2005, reflects the mood of the bank, not to allow any intermediary between themselves and the SHGs. This shows a very positive trend in right direction. It is a welcome feature that the gap between the rural poor (SHGs) and mainstream financial institutions (Banks) is being reduced and any intermediary between them is done away with.

Table 2: Model-wise cumulative number of SHGs linked during 2001-05 (%)

Model	Up to 31st March				
	2001	2002	2003	2004	2005
Model-I	13	16	20	20	21
Model-II	76	75	72	72	72
Model-III	11	9	8	8	7
Total	100	100	100	100	100

Source: Progress of SHG-Bank linkage in India 2002-03, 2003-04, 2004-05,NABARD

Table 3 shows that among the partner agencies which participated in the SHG-Bank linkage programme, commercial banks played the major role with 52 percent of SHG linked and 60 percent of loans distributed as on 31st March 2005. By that date all the 27 public sector banks, 20 private sector banks and all the 196 RRBs participated in the programme. Though the cooperatives are comparatively late starters to the programme, have begun to involve themselves in large scale. The recent amendments in the Cooperative Societies Act enabled the co-operatives to take up the work of promoting and nurturing SHGs in large scale.

Table 3: Cumulative number of agency-wise SHGs financed (Rs. millions)

Agency	2002-03		2003-04		2004-05	
	No.	Amount	No.	Amount	No.	Amount
Commercial Bank	361061 (50)	11495 (56)	538422 (50)	22548 (58)	843473 (52)	41590 (60)
Regional Rural Bank	277340 (39)	7272 (36)	405998 (36)	12782 (33)	563846 (35)	20995 (30)
Cooperative Bank	78959 (11)	1720 (8)	134671 (12)	3711 (9)	211137 (13)	6399 (10)
Total	717360 (100)	20487 (100)	1079091 (100)	39041 (100)	1618456 (100)	68984 (100)

Figures in parenthesis indicate percentage to total.

Source: Progress of SHG-Bank Linkage in India 2002-03,2003-04,2004-05,NABARD

The study of geographical spread of the programme reveals that it is the southern states in general and Andhra Pradesh in particular which contributed most to the programme. Table-4 reveals that over the period under study the share of southern states have declined from 68.8 percent in the year 2002 to 58 percent in the year 2005.

Table 4: Region-wise spread of SHGs linked to banks (2002-05)

Region	Up to 31st March			
	2002	2003	2004	2005
Northern	4.2	5	5	5
North-Eastern	0.3	1	1	2
Eastern	9.9	13	15	17
Central	10.4	11	12	12
Western	6.4	6	5	6
Southern	68.8	64	62	58
Total	100	100	100	100

Source: Progress of SHG-Bank Linkage in India 2002-03,2003-04,2004-05,NABARD

Due to region specific promotional strategies developed by NABARD in consultation with banks, NGOs and state governments and introduction of Goal Oriented Project Planning (GOPP) programmes for its district officers and widening of its partnership, the states which were way behind in the programme started to show perceptible progress (Table-5).

Table 5: Cumulative growth trend in SHGs linked to banks (2001-05)

State/Region	Up to 31st March				
	2001	2002	2003	2004	2005
Orissa	8,888	20,553	42,272	77,588	1,23,256
Bihar	4,592	3,957	8,161	16,246	28,015
Jharkhand	-	4,198	7,765	12,647	21,531
Uttar Pradesh	23,152	33,114	53,696	79,210	1,19,648
Uttaranchal	-	3,323	5,853	10,908	14,043
Rajasthan	5,616	12,564	22,742	33,846	60,006
Madhya Pradesh	5,699	7,981	15,271	27,095	45,105
Chattisgarh	-	3,763	6,763	9,796	18,569
NE region	477	1,490	4,069	12,278	34,238

Source: Progress of SHG-Bank linkage in India 2004-05, NABARD,

Besides physical growth, the programme has commendable socio-economic impact on the poor, particularly on small scale farmers, rural micro-entrepreneurs and landless labourers. The studies conducted by the Department of Economic Analysis and Research of NABARD in the years 2000 and 2002 to investigate the impact of linkage programme on incomes, poverty reduction and several aspects of living conditions of SHG member households; and by NGO MYRADA in 2002 on empowerment of women members of SHG, disclose the following facts (Hannover 2005).

- In groups effectively linked to banks at least one basic saving and lending product is generally being offered to SHG members
- Most SHG members substantially increase their saving rates
- In borrowing patterns a shift can be observed overtime from consumption loans to loans for income generating purposes
- Increased saving and capital formation improve the self-financing capacities and even out the household's cash flow, thus creating higher risk absorption capacities and decreased vulnerability.
- The access to formal financial service also contributes to a strongly reduced dependency on informal money lenders with positive effects on the reduction of capital costs.
- The improved access to financial service benefit households and individuals in maintaining, intensifying and diversifying their economic activities, also in the non-agricultural sector with positive effects on income and employment generation.
- The financial services and their impact on income also raise the capacities of the beneficiaries of the programme to increase their household expenditure for basic needs such as better nutrition, education and health.
- With about 90 percent clients of linking programme being women, contribute substantially to human capacity building and empowers women to become more self-confident and competent.

- Linkage models involving NGOs, as Self Help Promotion Institution often perform better than the model SHGs formed and financed by banks.

Conclusion

Given the better performance of older SHGs, it is clear from the foregoing analysis that SHG-Bank linkage model of improving financial accessibility of poor is cost effective and sustainable and certainly contributes to poverty alleviation. But, as it revolves round the concept of "SHG solution to bankers reluctance/problem in financing the poor in one hand and building human capital through self-realization and self-initiative of SHG's members; on the other, it is necessary that caution should be exercised in forming and nurturing such groups without sacrificing quality for the sake of quantity to achieve the targets fixed. A lesson can be learnt from the better performance of SHG, formed by NGOs, which work in a missionary spirit than the SHGs formed by banks to achieve the targets fixed. The bond among the members created on the basis of 'financial needs' should be converted into 'emotional attachments' generated out of repeated successes. More effort need to be geared towards strengthening of group functioning through training of its members, capacity building and improving the information system. The programme is rightly focusing on the geographical areas still lagging behind. To increase the effectiveness of its outreach, strategies may include different delivery models but the sanctity of groups should not be compromised at any level. It will be better if the government remains just as a facilitator without direct involvement in the programme. If it maintains the result it has shown so far, it will not only remain just as the largest programme of poverty alleviation in the world but become an example for the other developing countries to follows.

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Micro Finance and Empowerment of Muslim Women A Study of SHGs in Coimbatore City of Tamil Nadu

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Micro finance interventions are well – recognized world over, as an effective tool for poverty alleviation and improving socio economic conditions of the poor. In India too, micro finance is making head way in its efforts for reducing poverty and empowering rural and underprivileged women. Micro finance through the network of cooperatives, commercial banks, regional rural banks, NABARD and NGO's has also been largely supply – driven and a recent approach. Micro finance institutions other than banks are engaged in the provision of financial services to the poor. The study is aimed at analysing the impact of micro credit on socio economic empowerment of Muslim women and suggesting policy measures for empowering them, strengthening micro finance programme and effective and efficient functioning of SHGs. The study is empirical in nature and based on mainly primary data collected from field survey, conducted in Coimbatore district of TamilNadu covering the sample 37 SHGs in five areas where the Muslim population is highly thick covering 148 beneficiaries. The SHGs and micro financial services need critical assessment of their impact on socio economic status of members.

Introduction

Micro finance interventions are well – recognized world over, as an effective tool for poverty alleviation and improving socio economic conditions of the poor. In India too, micro finance is making head way in its efforts for reducing poverty and empowering women in particular. The impact of micro finance programme through SHGs has been effective in making positive social change to all members, irrespective of the direct borrowers of the micro credit. Importantly, in the rural context, the SHGs have facilitated the poor, especially the women to overcome the existing constraints grappling the formal credit institutions. These groups provide considerable social protection and income opportunities to the members. The SHGs have acquired a prominent status in maximizing social and financial returns. The promotion of income generation activities for the poor rural women is perceived as a powerful medium to resolve several socio economic problems such as reduction in poverty, provision of goods and services appropriate to local needs, redistribution of income and opportunities in the community etc.

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Objectives

1. To study the extent of involvement of Muslim women in SHGs
2. To analyse the impact of micro credit on socio economic empowerment of Muslim women in Coimbatore city of TamilNadu.

Methodology

Present study is empirical in nature based on mainly primary data collected through field survey. The field survey has been carried out in the urban areas of Coimbatore city. The areas covered were Ukkadam, Karumbukkadai, Podanur, Kuniamuthur and Marakadai where the Muslim population is high. Total of 37 SHGs and 148 members of SHGs were randomly selected for the field survey. A structured questionnaire was used to collect the relevant information.

Findings

Socio Economic Conditions of Beneficiaries: Age, education, marital status, type of family, size of family, family income, employment and decision making in family etc. are some of the important variables that affect women in their empowerment and development. Table 1 shows the socio economic profile of the beneficiaries.

Table 1 : Socio-economic conditions of the beneficiaries

	Characteristics	Number	Percentage
1.	Age (in years)		
	< 25	34	23
	26 – 35	72	48
	36 – 45	38	26
	45 and above	4	3
	Total	148	100
2.	Education		
	Illiterate	18	12
	Literate	16	11
	Primary	56	38
	High school	56	38
	Higher secondary school	2	1
	Graduates	–	–
	Total	148	100
3.	Marital status		
	Married	118	80
	Un married	24	16
	Widow	6	4
	Total	148	100
4.	Type of family		
	Nuclear	54	36
	Joint	94	64
	Total	148	100

Table 1 Continnued

Table 1 Continnued

5.	Size of family		
	Less than 4	30	20
	4 – 6	108	73
	7 – 9	10	7
	Up to 10 and above	–	–
	Total	148	100
6.	Ownership of house		
	Own	28	19
	Rented	120	81
	Total	148	100
7.	Spending on family income		
	Self	8	6
	Husband	128	86
	Children	–	–
	Father/Mother – in – law	12	8
	Any other family member	–	–
	Total	148	100
8.	Employment of respondents		
	Housewife	68	46
	Employment		
	Self - employment	50	33
	Professional	8	6
	Labour	22	15
	Total	148	100
9.	Annual income of family		
	Below Rs10000	4	3
	Rs10000 – Rs15000	24	16
	Rs15000 – Rs20000	18	12
	Rs20000 – Rs30000	76	51
	Rs30000 and above	26	18
	Total	148	100
10.	Annual income of the respondent		
	Below Rs10000	2	1
	Rs10000 – Rs15000	64	43
	Rs15000 – Rs20000	26	18
	Rs20000 – Rs30000	42	28
	Rs30000 and above	14	10
	Total	148	100
11.	Decision making in family		
	Yourself	10	7
	Husband	62	42
	Both of them	76	51
	Total	148	100

- Most of the selected beneficiaries belong to age group of 26 – 35 years (48 percent) and 36 – 45 years (26 percent).
- Most of the beneficiaries were found poor in terms of education and literacy development. Even, 12 percent women respondents were reported to be illiterate. But educated women respondents were reported high (76 percent).
- Most of the women were reported to be married (80 percent), proportion of unmarried girls was reported (16 percent) and widow beneficiaries has been reported only 4 percent.
- The majority of the respondents were found living in joint families (64 percent) while more than one third respondents accepted that they are living in nuclear families.
- Overwhelming majority of respondents (73 percent) reported that their family size is large one, comprising of more than 4 members.
- A majority of the respondents (81 percent) were living in rented house.
- More than 80 percent of the respondents reported that their husbands spend family income while about 6 percent respondents accepted that they themselves spend it.
- More than one third respondents were housewives. It was found that self employed women were 83 percent and 15 percent respondents were labourers.
- Most of the families (51 percent) belong to income level of Rs20000 – Rs30000 per annum (i.e.) low. Interestingly, most of the families are living below the poverty line or just above it.
- About 43 percent of the respondents belong to income level of Rs10000 – Rs15000 per annum (i.e.) low. However, these women are contributing significantly to the family income.

Approval of Social Status: Approval of social status issues has been shown in Table 2. Surprisingly, inter caste marriage, widow remarriage, job reservation for women, divorce is still approved by the significant proportion of respondents, however issues like dowry system, punishing wicked husband is less approved by the educated respondents. None of the respondents approve the issues such as inter religion marriage and child marriage. A majority of the respondents (86 percent) has accepted the issue of job reservation for women. Women are becoming more and more aware about their rights and entitlements.

Participation in Family Decision: The decision making in family is shown in Table 2. It was observed that women's participation in decision making in family is important indicator for measuring their empowerment. Though 42 percent beneficiaries reported that decisions are being taken by their husbands yet more than 50 percent respondents accepted that they do participate in decision making process. Thus the socio economic conditions of women have demonstrated that their status has improved since the joining of SHGs and availing micro finance.

Table 2: Approval of social status and decision making in the family.

	Number	Percentage
1) Approval of Social Status		
Dowry system	4	3
Inter - caste marriage	56	38
Inter – religion marriage	–	–
Contractual marriage	10	7
Love marriage	6	4
Widow marriage	28	19
Child marriage	–	–
Divorce	24	16
Compulsory family planning	50	34
Job reservation for women	128	86
Punishing wicked husband	12	8
2) Decision making in family		
Yourself	10	7
Husband	62	42
Both of them	76	51
Total	148	100

*Multiple responses

Participation of Women in Group Functioning

SHGs would essentially formed for the purpose of empowering the poor to take charge of critical decisions concerning their lives and improve its quality. Women's participation in SHGS in its various activities is important for meeting out the broad objectives of micro financing and effective functioning of SHGs. The participation of the selected women in their groups involving in various activities is shown in Table 3.

- Most of the beneficiaries revealed that they formed group in 2002 (43.2 percent) and 2003 (37.8 percent) while 1.4 percent of women respondents formed the group in 2006.
- Majority of the respondents 40.5 percent reported that NGO workers and facilitators motivated them to join the group. Self – motivation to join the SHGs was recorded only 13.5 percent. It is clear that NGO's are the main motivators for joining the SHGs as well as sensitizing the community.
- Out of total respondents, 62.2 percent were ordinary members while 24.3 percent were representatives and 13.5 percent were leaders of the groups.
- Regular meetings are very important, especially in the initial stage. The SHGs would decide on a fixed date, time and place for the meetings. This would ensure that the women remain committed to the group and would be able to plan in advance. More than 73 percent respondents reported that meetings of SHGs are held weekly.

Table 3: Participation of women in group functioning

		Number	Percentage
1.	Joining of the group (year)		
	2002	64	43.24
	2003	56	37.8
	2004	20	13.5
	2005	6	4.0
	2006	2	1.4
	Total	148	100.0
2.	Motivation to join group		
	Self	20	13.5
	Family members	12	8.1
	Friends/Relatives	50	33.8
	NGO/ Government officials	60	40.5
	Other members of the group	6	4.1
	Total	148	100.0
3.	Position in group		
	Ordinary members	92	62.2
	Representatives	36	24.3
	Leader	20	13.5
	Total	148	100.0
4.	Frequency of group meetings		
	Weekly	108	73
	Fortnightly	40	27
	Monthly	–	–
	Total	148	100
5.	Participation of group members in meeting		
	All members	100	67.6
	Few members	20	13.5
	Some members	28	18.9
	Total	148	100.0
6.	Deciding meeting agenda		
	Majority of members	106	71.6
	Some members	14	9.5
	Facilitators of NGO	10	6.8
	Group members & NGO jointly	18	12.1
	Total	148	100.0
7.	Participation of members in decision making		
	All members	94	63.5
	President	14	9.5
	Leaders & the representative	40	27.0
	Total	148	100.0
8.	Decision making in group		
	By consensus	72	18.9
	By voting	28	48.6
	By group representatives	24	16.2
	By facilitator	14	9.5
	By facilitator & representative	10	6.8
	Total	148.	100.0

- More than three fourth of the respondents accepted that all members of the group participate in meetings. Only 18.9 percent respondents revealed that only some members participate in group meetings.
- The agenda of meetings is being decided by most of the group members (71.6 percent). It was reported that group members and NGO's also decide the agenda of meetings (12.1 percent). It is clear that the participation of the majority of the members in the decision regarding the agenda of the meetings is praise worthy.
- The majority of the respondents i.e. 63.5 percent reported that all members participate in the decisions of the group meetings. It was observed that in the decision making process NGO's facilitators also participate to enable the group members in choosing the best alternatives.
- Decisions in the group meetings are taken on the basis of consensus (48.6 percent) and by voting (18.6 percent). It is positive trend that definitely a decision of the group meetings are being taken on the basis of emerged consensus.

Knowledge and Awareness Regarding SHG Activities: Knowledge and awareness regarding SHGs activities are shown in Table 4. The issues like cash in hand, balance in bank, savings of group, number of members who have taken loans, name of bank, group income, total capital of group, total loans of group etc are well known to the majority of the members of groups. While, awareness regarding problems of groups, meetings, rules and regulation, group records, objectives of groups etc has been recorded low.

Table 4: Respondents knowledge and awareness regarding SHG activities

	Percentage (multiple responses)
Meeting of calendar	56.2
Rules to regulation	62.5
Information in group records	43.7
Cash in hand	100.0
Balance in bank	84.3
Out standing loan	100.0
Capital of the group	95.0
Savings of the group	100.0
Total loaning of the group	90.0
Number of members taken loan	100.0
Number of members paid loan	98.0
Name of the bank	100.
Income of the group	85.0
Objective of the group	68.0
Achievements of the group	46.8
Problem of group	37.5

N = 148

Thrift and Credit Performance of the SHGs: Thrift and credit performance of the SHGs is shown in Table 5. From the Table 5 it reveals:

- The significant increase in savings has been recorded by the beneficiaries. There has been increase of 10.9 percentage points and 2.7 percentage points in the savings amount of Rs. 50 – Rs. 100 and Rs. 101 – Rs. 200 during the initial and present stage.

Table 5: Thrift and credit performance of SHGs

		Number	Percentage
1.	Initial Savings rate of respondents		
	Below Rs50	80	54.1
	Rs50 – Rs100	64	43.1
	Rs101 – Rs200	4	2.7
	Total	148	100.0
2.	Present Savings rate of respondents		
	Below Rs50	60	40.5
	Rs50 – Rs100	80	54.1
	Rs101 – Rs200	8	5.4
	Total	148	100.0
3.	Purpose of savings*		
	Food security	110	74.3
	Social security	144	97.3
	Education	136	91.9
	Medical	142	95.9
	Marriage	110	74.3
	Festivals	116	78.4
	Emergency	148	10.0
	Agriculture	–	–
	Asset building	132	89.2
	Self respect	148	100.0
4.	Amount of internal loaning*		
	Internal loaning	148	100.0
	Bank loaning	132	89.2
	Revolving fund	148	100.0
	Repayment	64	43.2
5.	Purpose of loaning*		
	Consumption	88	59.5
	Animal husbandry	16	10.8
	Income generating activity	132	89.2
	Asset building	104	70.3
	Emergencies	140	94.6
6.	Balance amount to be paid		
	Less than Rs500	44	29.7
	Rs501 – Rs1000	64	43.2
	Rs1001 – Rs1500	24	16.3
	Rs1501 – Rs2000	16	10.8
	Total	148	100.0
7.	Whether received benefits under Government schemes		
	Yes	64	43.24
	No	84	56.76
	Total	148	100.0

* Multiple responses

Table 6: Changes on socio-economic status after joining SHG

	Same	Increased	Decreased	Total
Mobility	81	67	-	148
	(54.73)	(45.27)		
Recognition in family	111	37	-	148
	(75.0)	(25.0)		
Recognition in community	119	20	9	148
	(80.4)	(13.5)	(6.1)	
Interaction with outsiders	30	118	-	148
	(20.2)	(79.8)		
Literacy/education	59	89	-	148
	(39.9)	(60.1)		
Access to health services	22	126	-	148
	(14.9)	(85.1)		
Access to immunization	18	130	-	148
	(12.2)	(87.8)		
Access to sanitation facility	94	54	-	148
	(63.5)	(36.5)		
Access to credit sources	76	72	-	148
	(51.4)	(48.6)		
Asset building	92	56	-	148
	(62.2)	(37.8)		
Family income	12	136	-	148
	(8.1)	(91. 9)		
Skills	88	60 .	-	148
	(59.5)	(40.5)		
V oicing concern	108	40	-	148
	(72.9)	(27.1)		
Nutrition awareness	26	122	-	148
	(17.6)	(82.4)		
Child development awareness	86	62	-	148
	(58.1)	(41. 9)		
Health awareness	10	138	-	148
	(6.8)	(93.2)		
Decision making related to child development	72	76	-	148
	(48.6)	(51.4)		
Decision making related to money	28	120	-	148
	(18.9)	(81.1)		
Participation in development programmes	36	112	-	1 4 8
Self confidence	(24.3)	(75.7)		
	14	134	-	148
Development of leadership attributes	(9.5)	(90.5)		
	121	27	-	148
Development of communication skills	(81.8)	(18.2)		
	76	72	-	148
Individual income	(51.4)	(48.6)		
	-	148	-	148
		(100)		

Note' Fi!wres in brackets indicates percentages

- The respondents were asked to reveal the important purposes of savings. The prominent factors reported were self respect, emergencies, medical, social security, festivals, marriages, education of children etc. The most important purpose among the factors was cited to be self respect (100 percent) and emergencies (100 percent) of the women.
- All the respondents have received internal loan as well as cash credit facility and majority of the women (89.2 percent) have availed bank loan. Only 43.2 percent of the respondents have repaid their dues while rests are supposed to repay their dues.
- Income generating activity loan dominates over the micro financing. Emergency expenses accounted second major purpose of loan. The proportion of consumption loans has been recorded 59.5 percent, asset building loan at 10.3 percent and animal husbandry only 10.8 percent.
- Most of the respondents reported that they have to pay dues up to Rs1000 (43.2 percent), while only a small proportion has to repay heavy dues.
- The respondents were asked regarding receiving of benefits from development programmes. Only 43.24 percent of them reported that they availed benefits while majority of the women members (56.7 percent) could not get any benefit from development programmes.

The socio economic conditions of disadvantaged women have improved since joining the groups. The positive changes have been reported in case of awareness regarding nutrition, health, family planning, decision making related to money centered, interaction with outsiders, mobility, educational development, access to health services, and family income.

Perception of Community Towards SHGs: SHGs have created positive attitude of community towards functioning of SHGs, micro financing as well as being effective on social problems (Table 7).

Table 7: Perception of community towards SHGs

	Number*	Percentage
Well organized family	142	95.9
Good relation with their husband	136	91.9
Check on alcoholism	56	37.8
Control over saving	148	100
Self confidence	148	100
Awareness	148	100

* Multiple responses

Policy Recommendations

- There is need to accept that women's needs are not for self employment. The programmes should be designed on the basis of the needs of women at the micro level. Planning for self employment for Muslim women needs a multi pronged strategy.

- Procedure for credit access to women should be made more easy and simple.
- In order to ensure proper utilization of the credit there is an urgent need to introduce availability of consumption credit from the formal channel. The need is to sensitize bank staff towards the needs, constraints and inhibitions of Muslim women.
- There is need to evolve new products by the banks commensurate with the requirements of women.
- Marketing of new distribution may involve training or community development skills. There is need to evolve training packages for entrepreneurship development to enable Muslim women as successful business managers and sustaining micro – enterprises.
- Regulation of micro – financial services is necessary which helps in long term sustainability.
- Strong marketing network is called for effective and proper marketing of product and services of micro enterprises linked SHGs. They need marketing support and institutional capacity to handle marketing activities independently.

Conclusion

The study simply demonstrates that SHGs among Muslim women have created conducive environment for growth and development of micro enterprises, meeting out the credit needs to its members, convergence with Government programmes and over all empowerment of its members in terms of improved socio economic status, income earnings, mobility and confidence building to sustain and manage business on their own.

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Capacity Utilization in SSI Sector

R. L. Hyderabad and Praveen. A. Korbu

The present paper is an attempt to study capacity utilization level in selected manufacturing units of SSI sector in Hubli-Dharwad area of Karnataka State. The findings indicate that the SSI sector is reeling under the pressure of under utilization of installed capacity. The study finds that the rate of utilization is different across SSI units, and there is no relationship between the location and form of ownership of the SSI units and the extent of capacity utilization.

Introduction

The creation of manufacturing capacity involves purchase of plant and machinery, equipment, construction of sheds and building, etc. The capacity creation is an expensive process and leads to commitment of long-term funds. It generates its own costs, i.e., fixed costs. Greater the capacity developed, higher would be these costs. These costs are permanent in nature and needs to be exploited fully. Poor or inadequate capacity utilization brings all disadvantages and limitations. The fixed unit cost will be very high and price remains high, making the product uncompetitive. In view of this, it should be the objective of every entrepreneur to optimize capacity utilization.

The Hubli-Dharwad area in Karnataka State is identified to be an area of SSI units. The area has the highest number of SSI units next only to Bangalore city. The SSI units vary from service units to cattle feed manufacturing units. However, the position of many SSI units in the area is far from satisfactory. One reason identified by KSSIDC, KIADB, Small Scale Units Association, etc., is poor capacity planning and utilization.

Subbi Reddy (1979) undertook a case study covering 21 SSI units of Ananthpur city shows that the poor marketing, lack of raw material and labour and managerial problems as factors responsible for under utilization of capacity. Vijaya (1981) studied 23 SSI units of an industrial estate in Warangal town of Andhra Pradesh revealed that there was general under utilization of production capacity in different units studied and only two units utilized their maximum capacities. The study found deficiency of demand, scarcity of raw materials, lack of finance, initial stages of development, competition from large units and, technical reasons as causes for underutilization of capacity. Bedbati Mohanthy (1982) surveyed 171 small-scale units in Cuttack district of Orissa State for a period of 5 years from 1976-77 to 1980-81 and found that the capacity utilization in different sizes

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of industrial units does not depend on size of the unit. Ramayya and Papayya (1985) studied 47 units of Warangal district of Andhra Pradesh and found that none of the mills in Warangal district was utilizing installed capacity even for eight hours a day. The average utilization was only 62.5% of installed capacity. The reasons for underutilization of capacity were identified as mushrooming number of huller rice mills in the countryside and sheller type rice mills in the village around the city. Ramamurthi, Krishna kumar & Hephzibah (1990) covered 85 units situated in & around the twin cities of Hyderabad and Secunderabad reveals that out of 85 units, 58.82% were not in a position to utilize their capacity beyond 50 percent and identified inadequate market demand, lack of working capital, inadequate & irregular supply of raw material and power failure, inadequate work force, etc., as reasons.

A case study was undertaken by Jaychandran, Narendra Kumar and Himachalam, in 1994, covering 39 viable sample units of Tirupati Industrial Estate. The study shows that 50% were utilizing 25% to 50% of capacity & remaining 50% were utilizing 50% to 75%. Conspicuously, not even a single unit was utilizing more than 75% of plant capacity. Tungare (1996) studied 76 small-scale units in the Sindhudurga District of Maharashtra State, and found that more than 67 percent of the small-scale units were operating below 52 percent of their installed capacity. The causes for under utilization were similar to earlier studies of Subbireddy (1979) and Vijaya (1981). Raviprakash Singravellu (1997) covered a survey of 82 small-scale industries in the Madras City. The conclusions of the study were almost similar to earlier studies. Devaraj (2006) analyzed the cost of production and capacity utilization of the sugar industries in Karnataka, and found that the overall average capacity utilized was to the extent of 70 percent. Since the cane supply was uniformly distributed throughout the crushing season, the co-operative sugar factories could achieve the highest utilization of the installed capacity as compared to private and public sector units.

Objectives

The study aims to achieve the following objectives:

- Analyze the extent of capacity utilization among sample units.
- Identify causes for under or over utilization of capacity.
- Evaluate the relationship between the nature of the unit, location and form of ownership and capacity utilization.
- Analyze the overall effect of under utilization

Hypotheses

The following hypotheses have been formulated:

H_1: There is no variation in capacity utilization across different SSI units.

H_2: There is no relation between location of SSI units and the rate of capacity utilization.

H_3: There is no effect of form of ownership on the rate of capacity utilization.

Methodology

The study employs both primary and secondary sources of data. The primary data were collected through Interview Schedule administered on 100 SSI units, out of the 400 small-scale manufacturing units of Hubli-Dharwad city, selected using Stratified Random Sampling Technique. The study selects ten industrial sectors which meet the requirement of manufacturing capacity, i.e., the existence of plant and machinery. Besides using primary sources, the secondary data were collected from official records of KSSIDC branch at Hubli, DIC Dharwad and from Tarihal Industries Owners Committee. The data so collected were properly analyzed by using simple statistical tools like mean, standard deviation, co-efficient of variance and chi-square.

Analysis

Table 1 gives the sector-wise distribution of sample size. It shows that there are more engineering components manufacturing units in the area followed by plastic, food products, valves, cement blocks, etc.

Table 1: Sector-wise distribution of sample units

Sl. No	Type of Industry	Total Units	Sample units	% of sample to total units
1	Plastic	48	12	25
2	Cattle feeds	24	6	25
3	Valves	48	12	25
4	Engineering components	80	20	25
5	Tiles	20	5	25
6	Cement blocks	40	10	25
7	Agriculture implements	40	10	25
8	Paints & allied products	20	5	25
9	Food products	48	12	25
10	Wood products	32	8	25
	Total	400	100	25

Source: Field survey

Extent of Capacity Utilization

Table 2 gives information on capacity utilization in sample units. It shows that 55 percent of sample units have utilized installed capacity in the range of 50-75 percent while 22 percent in 25-50 percent range. Only 14 percent of sample units have operated above 75 percent of the installed capacity and 9 percent utilized less than 25 percent of installed capacity.

Table 2: Capacity utilization in sample units

Capacity Utilization (%)	No. of units
Less than 25%	9
25% to 50%	22
50% to 75%	55
Above 75%	14
Total	100

Source: Field survey

Nature of Industry and Capacity Utilization: Table 3 shows details relating to industry group and capacity utilization. Capacity utilization varies from 50 percent to 75 percent in majority of sample units in all types of industries. The highest rate of capacity utilization was in tiles and paints and allied products industries and lowest rate of capacity utilization was in cement blocks manufacturing sector. The statistical results indicate that tiles sector has the highest mean value and lowest standard deviation and coefficient of variation. The One-Way Analysis of Variance (ANOVA) shows that nature of industry and capacity utilization are significantly related at 5 percent level. A paired comparison reveals that the mean of plastic industries is significant as compared to engineering components, cattle feeds as against engineering components, valves industries as against engineering components, and agricultural implements and the engineering components as against all types of industries except agricultural implements. Hence, H_1 is rejected.

Location of the Units and Capacity Utilization: Location decision has to be taken in case of a new business as well as for setting up a branch of an existing business. It is hypothesized here that a well-located unit will have higher capacity utilization than a badly located unit. The SSI units may be located either in industrial area or estate or in non-industrial area or estate. The estate or area based units have locational advantages. They enjoy basic infrastructural facilities at minimum cost with assured marketing outlets. The non-estate based units have to make their own arrangements of infrastructural facilities.

It can be seen from Table 3 that out of 71 sample units situated in industrial area 37 units constituting 52.11 percent (37 out of 71) are utilizing installed capacity in the range of 50-75 percent, 26.76 percent units in the range of 25–50 percent while 8 units constituting 11.26 percent are utilizing below 25 percent of installed capacity. Only 7 units constituting 9.86 percent are utilizing installed capacity above 75 percent. As regards area-based units, out of 25 units, 14 units constituting 56 percent are utilizing in the range of 50-75 percent, while 7 sample units constituting 28 percent above 75 percent and 12 percent units in the range of 25-50 percent. Only 1 unit is utilizing at less than 25 percent rate. The sample includes only 4 units based in non-industrial areas or estate. All these sample units are utilizing capacities in the range of 50%- 75%. Therefore, it can be said that location has neither advantages nor disadvantages. The estate and non-estate based units have similar percent of capacity utilization.

Table 3: Factors influencing the capacity utilization of sample units -

Sl.No	Nature of industry	No of units	Percentage of capacity utilization Below 25%	25% to 50%	50% to 75%	Above 75%	Mean	SD	CV
A) Capacity utilization and industry groups of sample units									
1	Plastic	12	-	2 (16.7)	9 (75.0)	1 (8.4)	60.4	12.5	20.6
2	Cattle feeds	6	-	2 (33.4)	3 (50)	1 (16.7)	58.3	17.4	29.8
3	Valves	12	-	1 (8.3)	8 (66.8)	3 (25.0)	66.6	14.2	21.3
4	Engineering components	20	8 (40.0)	3 (15.0)	8 (40.0)	1 (5.0)	40.0	24.9	62.3
5	Tiles	5	-	-	4 (80.0)	1 (20.0)	67.4	10.4	15.4
6	Cement blocks	10	-	3 (30.0)	3 (30.0)	4 (40.0)	64.9	21.1	32.6
7	Agricultural implements	10	1 (10.0)	5 (50.0)	4 (40.0)	-	48.8	19.6	40.2
8	Paints and allied products	5	-	-	4 (80.0)	1 (20.0)	62.6	0.0	0.0
9	Food products	12	-	5 (41.7)	7 (58.4)	-	52.1‘	12.3	23.7
10	Wood products	8	-	1 (12.5)	5 (62.5)	2 (25.0)	65.55	15.31	23.36
	Total	100	9	22	55	14			
	*One-way ANOVA F- value 2.998**								
B) Location of the unit and the degree of capacity utilization									
11	Industrial estate	25	1 (4.0)	3 (12.0)	14 (56.0)	7 (28.0)	64.4	18.9	29.3
12	Industrial area	71	8 (11.3)	19 (26.8)	37 (52.1)	7 (9.9)	52.6	20.4	38.8
13	Outside	4	-	-	4 (100.0)	-	62.5	0.0	0.0
	Total	100	9	22	55	14			
	Chi-square 26.3377** One-way ANOVA F- value 2.538								
C) Form of ownership and capacity utilization									
14	Proprietorship	45	8 (17.8)	1 (2.2)	26 (57.9)	10 (22.3)	58.5	24.3	41.5
15	Partnership	30	1 (3.3)	8 (26.7)	9 (63.4)	2 (6.8)	55.8	15.8	28.3
16	H.U.F	12	-	3 (25.0)	7 (58.3)	2 (16.8)	60.4	16.2	26.8
17	PVT Ltd	13	-	10 (76.9)	3 (23.1)	-	43.3	10.5	24.3
18	Public Ltd	0	-	-	-	-			
	Total	100	9	22	55	14			
	Chi-square 21.9532 ** One-way ANOVA F- value 18.950**								

Note: ** & * Indicates significance at 1 percent and 5 percent level respectively
Source: Sample survey

Since non-estate based units are very meager in the sample, it is very difficult to say the impact of location on capacity utilization. However, it is always true that estate based SSI units have a few locational advantages. The statistical result shows that estate- based units have mean value higher than area based industries and lower standard deviation and co-efficient of variance values compared to area based units. The chi-squire value is significant at the level of 1% as well as at 5% and is positive indicating that location is an influencing variable on capacity utilization. The one-way analysis of variance ANOVA indicates not much significant variation in the percent of capacity utilization for different locations. Hence, H_2 is accepted.

Form of Ownership and Capacity Utilization: It is hypothesized that capacity utilization is a product of form of business ownership, as classified into proprietary concerns, partnerships, private limited companies, etc. It can be said that capacity utilization will be greater with the increase in number of partners or members and complexity of business.

Table 3 reveals that capacity utilization has been on higher side in all four forms of businesses assumed by the study. It is only in private limited units some deviation is observed from this trend i.e., 10 out of 13 units utilized capacity in the range of 25%-50%. This can only be taken as an aberration. The mean value is high for HUF units followed by proprietary concerns. However, co-efficient of variation and standard deviation are high for proprietary entities indicating greater variation. A look at calculated and table value of chi-square test indicates that there is an association between form and capacity utilization. ANOVA result too indicates the same. Therefore, it can be said that there is no association between form of ownership of SSI unit and the rate of capacity utilization. Hence, H_3 is accepted.

Is Low Capacity Utilization a Short Term or a Long Term Problem?

Under utilization of installed capacity is becoming a common factor in most of the SSI units. This phenomenon is mainly because of lack of demand for the product, competitive conditions in market, entry of bigger units, financial, labour, and power inadequacies, etc. Table 4 shows that 28 percent of sample units are experiencing underutilization of capacity for last 2 years, 36 percent of sample units are experiencing underutilization of capacity since 4 years. Remaining units have this problem for more than 4 years. This clearly means that for 36 units the low capacity utilization has been a chronic or continuing problem.

Table 4: Period of time of low capacity utilization

No of years	No of units	Percentage
Less than 2 years	28	28
2 to 4 years	36	36
4 to 5 years	26	26
Above 5 years	10	10
Total	100	100

Source: Field survey

Causes for Underutilization

The causes for underutilization vary widely from enterprise to enterprise, place to place and from entrepreneurs to entrepreneurs and have an adverse impact on the performance of enterprise.

A perusal of Table 5 reveals causes stated by sample entrepreneurs using Likert's Five Point Scale. The total value of 'agree' scale exceeds all other scales used and is followed by 'neutral' scale. The excess capacity at the time of promotion, lack of raw materials, inadequate finance, competitive conditions, lower investment in R & D, establishment of bigger units, etc, are viewed to be the major reasons for under utilization of installed capacity. The multiple regression technique is applied to know the major causes for underutilization. There is 34.3 percent of variation as explained by the data. The t value for regression co-efficient is significant for inefficient labour and inadequate finance for both at 1 percent and 5 percent level of significance. Therefore, two causes, namely, inadequate finance and inefficient labour are important causes for underutilization of capacity by sample units.

Table 5: Causes for underutilization capacity in sample SSI units

Sl. No.	Causes for underutilization of capacity	Mean Score	SD	CV	t-value for regression coefficient
1	Excess capacity created at the time of starting of unit	2.68	1.30	48.62	0.582
2	Lack of raw material	2.53	0.77	30.34	0.527
3	Inefficient labour	3.0	1.06	35.28	3.046**
4	Inefficient labour management practices	2.92	1.08	37.10	0.372
5	Inadequate finance	2.71	0.95	35.12	4.753**
6	Unnecessary expansion of some time capacity after	3.25	1.09	33.53	1.524
7	Competitive conditions in the market	2.31	0.92	40.00	0.115
8	Lack of demand for the product	2.96	1.08	36.36	1.150
9	Low investment in R&D by SSI units	2.80	1.18	42.96	0.654
10	Establishment of big units in the Industry	2.45	1.27	51.75	1.433
11	Entry of MNC's	2.64	1.10	41.67	0.153
12	Dumping of cheap goods by neighboring countries	3.42	1.01	29.58	2.454
	Total				

Impact of Underutilization of Capacity on Business

The underutilization of capacity affects overall business of entrepreneurs in SSI sector. Table 6 shows data relating to overall impact of under utilization of capacity on business of sample units. 60 entrepreneurs were affected by reduced profits, 38 units had higher cost per unit, and 9 respondents had poor liquidity position. Three responding units had to resort to use of debt capital on account of poor capacity utilization.

Table 6: Impact of underutilization of capacity on sample units

		No. of units	% to total sample units
a)	Nature of Impact of underutilization		
	High cost per unit	38	38
	Low profits	60	60
	Poor liquidity position	9	9
	Excessive debt	3	3
	Total	110	110
b)	Range of profit lost (Rs in 000's)		
	Rs 25	18	19
	Rs 25 to 50	36	38
	Rs 50 to 100	23	24
	Rs 100to150	16	17
	Rs 150to200	1	1
	Rs 200&Above	1	1
	Total	95	100

Source: Field survey

Since underutilization is affecting profits adversely, the range of profit decline depends on the quantum of underutilization. Therefore, it is generally agreed that higher underutilization leads to higher range of decline in the profits and vice-versa. Table 6 shows that, majority of sample units (36 out of 95) constituting 38 percent have lost profits in the range of Rs 25,000- Rs50,000, while 23 units constituting 24 percent (23 out of 95) in the range of Rs 50,000- Rs 100,000. Only 18 units have lost in excess of Rs 100,000 in annual profits.

Measures Taken to Control Underutilization

Underutilization of capacity created in a business organization is most undesirable. It brings disadvantages to all. Therefore, the control of it becomes very much necessary. It can be controlled both at the firm level as well as the industry level. The firm level measures includes actions taken by the entrepreneur himself while at the industry level the external force, namely, the government has to set right the imbalances.

Measures Employed by Entrepreneurs: The study enquired about the adoption of internal control measures by the entrepreneurs. 92 per cent of sample entrepreneurs are using one or the other measure to improve the rate of capacity utilization. Table 7 gives information on types of measures used by sample units. The acceptance of sub-contracting work and increasing demand for the product have been the two widely used measures among the sample units. Reducing the number of working days, sale of excess machinery, etc., have also been employed.

Table 7: Types of measures taken for tackling capacity underutilisation

Measures	No. of units	% in sample
Measures taken by sample entrepreneurs		
Sale of excess machinery	7	6
Increasing demand for product	36	32
Accepting sub-contracting work	39	35
Reducing number of working days	13	11
Introduction of new product	18	16
Total	113	100
Measures taken by State Government of Karnataka		
Reduction in excise duty	3	8
Reduction in sales tax	6	15
Concessional loan facility	14	34
Tax holiday	4	10
Concessional availability of raw material	10	25
Assured marketing	3	8
Total	40	100

Source: Field survey

Role of Government in controlling underutilization: The role of Government is very limited. It cannot assure business success in a liberalized world. However, SSI units provide large-scale employment opportunities, the State Government has a definite role in helping SSI units to overcome the hardships of poor utilization of capacities. The Government help could be in the form of reduction in excise or custom duty, lowering or exemption of sales tax or VAT, loan or interest subsidy, extension of recovery period, establishment of special funds, etc. In the study area, out of 100 sample units 54 units represented to the State Government of Karnataka and 40 sample units received one or the other type of assistance from the State Government. As shown in Table 7, measures taken by Government of Karnataka vary from reduction in sales tax to ensuring concessional availability of raw materials. Six sample units were given lower sales tax benefits, fourteen units with concessional loan facility and for ten units raw material was made available at concessional rate.

Conclusion

The Hubli-Dharwad area, the second-biggest industrial area in Karnataka, has acute problem of low capacity utilization among ten major manufacturing sectors. This problem has been observed both among estate and area-based units and among units with varied forms of ownership. Measures need to be taken both by the unit owners, to a greater extent, and by the government machineries, to a little extent. A conducive climate for SSI units, a harbinger of economic development in backward regions, should be provided to enable them to prosper and thrive. The measures taken by the State Government of Karnataka should be proactive rather than reactive and should encompass the wider spectrum of units working in the State. The critical review of projects at all levels in the initial stages of business, employing strategic alliances method with the bigger units as in the case of components manufacturers, using services of experienced sales personnel, resorting to marginal costing principle, i.e., sale of a product at less than full-cost pricing, limiting the entry of new competitors, exploring new markets, adopting annual budgeting method, etc., can all work handy in reducing the capacity imbalances. A proper mixture of sound business strategies and government measures can help SSI units to overcome from the burgeoning problem of low capacity utilization.

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Performance and Prospects of SSI

A Case Study of Bijapur District

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The paper highlights the performance and prospects of Small Scale Industries of Bijapur district in the light of globalization. The emergence of WTO and the introduction of new industrial policies have made a serious implications on the growth and development of small industries in India. Against this background the paper tries to help the small industries of the district to be competitive and contribute to SGDP, employment and export.

Introduction

Small industries play an important role in the economic development of the country. The contribution of this sector in India is phenomenal . It is one of the major sectors contributing to GDP, industrial production employment generation and exports. Small industries accounting 40% of gross value of output in the manufacturing sector, and providing employment to over 25 million people. In addition it accounts for about 39% of the total national exports and 7% of GDP. Small industries in India produces more than 750 products of all types and constitutes 95% of industrial units. Summary results of the third census revealed that, there are ever 10.5 million SSI units working in India and has acquired prominent place in the socio-economic development of the country. With the emergence of WTO in 1995, the sector was exposed to the world and facing challenges, increased competition, lack of finance, lack of infrastructure, obsolete technology, lack of proper marketing set- up and poor managerial ability are the major problems of this sector. Globalization has created some for-reaching implications on small scale sector. The removal of QRs (Quantitative Restrictions) and reduction in tariff rates on imports, removal of TRIMS (Trade Related Investment Measures) and strengthening of TRIPS has made this sector in such a situation as to live or perish.

There were 5933 tiny and small industries registered on march 2005 providing employment to 26295 person in Bijapur district, Karnataka. No big industries are found and the district has 3 medium scale industries. Two sugar industries and one spinning mill providing employment to 1181 persons with an investment of 62.91 crores

Unorganised/Unregistered Segment

Fourth census reveal that, there are 43732 small enterprise involved in manufacturing, and other different economic activities in the district. Out of the total enterprises, majority of them are owned and managed by private

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persons. The un-organised small scale sector of the district provides employment to 88875 persons. Out of which 44105 (52.58%) persons working in rural areas and remaining 39770 (47.42%) are working in urban area. The number of enterprises in the district increased to 56,324 during 2005. The fifth census also exhibits the fact that, the rural areas holds a major share of enterprises (67.56%) compared to urban areas (32.44%). The employment figure during this period has shown a rising trend. During 2005, this sector provides employment to 1,17,286 persons. The growth rates of un-organised segment of small industries of Bijapur district from 1990 to 2005 is depicted in table 1.

Table 1: Growth rates of un-organised segment of SSIs of Bijapur District (1900-05)

	1990	1998	Growth rate	2005	Growth rate
Enterprises	40,901	41,672	1.39	53,644	28.72
Employment	95,701	83,875	-12.36	1,17,286	39.83

Source: Fourth and Fifth Economic Census, Govt of Karnataka

Table 1 indicates that, the unorganized segment of small industries of Bijapur district has shown an overall increasing trend in terms of enterprises and employment over a period of time. The growth rate in enterprises during 1998 showed at 1.39 which is considerably very less compared to 2005 figure 28.72. The employment growth rate witnessed -12.36 in 1998 has been increased significantly in the next decade. This shows that, the process of globalization which began in 1991 has had an influence on the small industries of the district.

Organised/Registered Segment

The contribution of organized/registered small scale sector to economic development is significant in the district. The sector has grown over a period of time in the district but the growth is not consistent especially in the post liberalization period. The growth performance of small industries is generally described in terms of its absolute growth in units, investment, employment and exports. The growth performance of registered small industries of Bijapur district is depicted in the Table 2.

Table 2: Performance of small industries of bijapur district

Year	Units Registered in the Year	% of Growth	Investment made in the year (Rs. In Lakhs)	% of Growth	Employment provided in the year	% of Growth
1999-2000	–	–	–	–	–	–
2000-01	394	–	1165.30	–	2065	–
2001-02	422	07.11	1239.81	06.39	2070	0.34
2002-03	341	19.19	931.89	-24.83	1924	-7.05
2003-04	382	12.02	650.04	-30.24	1449	-24.69
2004-05	350	08.38	695.60	07.01	1370	-05.45
2005-06	400	14.28	1108.07	59.30	1401	02.26
2006-07	441	10.25	983.31	-11.26	1359	-3.00

Source: DIC, Bijapur.

Table 1 showed that, the number of units registered, investment made employment provided in the post liberalization period is showing an overall increasing trend, but, when we take in to account the percentage of growth in terms of units, investment, employment, the growth is in - consistent. This may be due to implications of policy changes and the impact of globalization. The analysis of the data relating to the distribution of the category of units shows that, food and beverages occupies a prominent place, followed by textiles and garments , wood and stationary and job work, repairs and services. The details of the category wise distribution of units is depicted in the Table 3.

Table 3: Category wise distribution of units since inception

Sl.	Category Industries	No.of units from inception up to 31-3-03	No.of units from 01-4-03 to 31-3-04	Total	No.of units 01-4-04 to 31-7-04	Total
1	Food and Beverages	1599	47	1646	15	1661
2	Textiles and Garments	685	81	766	06	772
3	Wood and stationary	442	61	503	05	508
4	Printing and stationary	115	04	119	—	119
5	Leather and leather products	418	18	436	—-	436
6	Rubbers and plastic	57	03	60	—	60
7	Chemicals and chemical products	58	04	63	01	63
8	Glass and ceramics	72	—	72	01	73
9	Baric Metal	66	10	76	—	76
10	General Engineering	422	16	438	03	441
11	Electrical and electronics	182	09	191	01	192
12	Automobiles	75	—	75	01	76
13	Transport and equipments	58	—	58	—	58
14	Ferrous and non ferrous	—	—	—	—	—
15	Job work, Repairs and Maintenance	423	61	484	13	497
16	Other services	171	58	229	04	233
17	Miscellaneous	221	10	231	03	234
	Total	5064	382	5446	53	5499

Source: DIC, Bijapur

To reveal further the growth pattern of small industries of the district, per unit investment and employment has to be analysed. The per unit investment and employment has been depicted in table 4.

Table 4: Per unit investment and employment

Year	Investment per unit	Employment per unit
2000-01	2.96	5.24
2001-02	2.94	4.91
2002-03	2.73	5.64
2003-04	1.70	3.79
2004-05	1.99	3.91
2005-06	2.77	3.50
2006-07	2.23	3.08
Average	2.47	4.30

Source: Researcher Calculation

Table 4 reveals that per unit investment declined during the period under study. It exhibits 2.96 lakhs in 2000-01 which declined to 2.23 lakhs. The annual average per unit investment estimated to be 2.47 lakh which is considerably less than the 2000-01 figure. This could be an indication that small industries are facing with the problem of lack of funds. Employment per unit depicts a declining trend all along the period. The employment per unit registered 5.24 in 2000-01 and it has come down to 3.08 in 2006-07. The average employment per unit is worked out to be 4.30. The lower per unit employment visualized in recent years because of the increased emphasis on technology up-gradation and modernization of small scale industry sector, which is considered essential in order to face competition.

A strong relationship is found to exist between investment and employment. The degree of relationship between investment and employment is shown in table 5, which depicts that, the investment employment rate has been increased. This indicates that increase in investment definitely generates more employment opportunities.

Table 5: Per unit investment and employment rate

Year	Investment (Rs Lakhs)	Employment	Investment/ Employment Rate
2000-01	1165	2065	0.56
2001-02	1240	2070	0.60
2002-03	932	1924	0.48
2003-04	650	1449	0.45
2004-05	696	1370	0.51
2005-06	1108	1401	0.79
2006-07	983	1359	0.72

Average investment employment rate is 5.9

The relation between the units, investment and employment can also be measured by the correlation technique. Table 6 furnishes the coefficient of correlation between the three parameters. Both investment and employment are influential in the growth of production. Any impact in these two factors does affect on the production of small industries of the district. The employment and investment parameters have shown a declining trend during the study period. This marked a greater extent on production. Another point to be noted here that the degree of difference between investment and employment is high. Investment parameter is more sensitive to growth of production compared to employment parameter.

Table 6: Computation of correlation coefficients

	Units	Investment	Employment
Units	1	0.5448	0.1656
Investment	-	1	0.6224
Employment	-	-	1

To probe the influence of globalization on the growth of small industry units, investment and employment, linear least squares lines have been fitted based on time series data for 2000-01 to 2006-07 period which is shown in Table 7. The trend values and the lineal least square line showed an upward tendency during the period under study. This indicates that, the globalization has failed to mark significant dent on the growth of units. Trend values and linear least square line exhibits a downward tendency. The line of fit for the study period is significantly negative thereby indicating an adverse impact on the rate of growth in investment. This visualizes that the small industries of Bijapur district are in dearth of funds. The least square fit for employment for the period is much steeper negatively. Therefore we can infer that, the changes that have taken place since 1991 have failed in providing gainful employment in the district.

Table 7: Fitting straight-line trend by the method of least squares

Year	Units trend values (Yc)	Investment trend values (Yc)	Employment trend values (Yc)
2000-01	378.63	1079.79	2092.20
2001-02	382.42	1042.43	1948.99
2002-03	386.21	1005.07	1805.78
2003-04	390.00	967.71	1662.57
2004-05	393.79	930.35	1519.36
2005-06	397.58	892.99	1376.15
2006-07	401.37	855.63	1232.94

Export Performance

The small industries contribution towards exports is not significant in Bijapur district. Only three industrial units are involved in exporting dry gapes, lemon, artistic and hand embroidery articles and tamarind carnol power. The details of the exports of SSI units of Bijapur district is shown in Table 8. Table 8 depicts that, Bijapur Grape processing society is performing well in exporting the commodities. The other two organizations are not performing well. The exporting units of the district are facing with the problems such as pre-cooling, packaging, lack of adequate cold storage, shipping clearance and high power cost problems rather than globalization.

Table 8: Export details of SSI sector of Bijapur district

Sl. No.	Name of the exporting unit	Production exported	Counts exported	Value of Exports 2002-03 (Rs in lakhs)	Value of Exports 2003-04 (Rs in lakhs)
1.	The Bijapur Grape Growers Processing Society Ltd, Bijapur	Graps, Lemon	UK, Dubai	8.75	100.00
2.	Sabala A Women Organisation Bijapur	Artistic Hand Embroidery Articles	Japan Switzer- USA, land South Africa	18.00	10.00
3.	Bharat Gum Industries Bijapur	Tamarind Carnol Powder	European Countries	80.00	20.00

Source: DIC Bijapur

Future prospects of Small Industries of Bijapur District

The small industries of Bijapur district are capable of facing the competition posed by globalization. They have the inherent potential to face the challenges. Many problems hindered the growth of small industries of the district. Therefore, there is an urgent need to address the problems to compete on its own. To outline the prospects of small industries of Bijapur district it is necessary to understand the existing problems and possible opportunities.

Problems: The major problems of SSIs in Bijapur Distrit are Poor infrastructure facilities; Non availability of adequate quality and quantity of power; Pace of technological up - gradation is slow; Weak bargaining power; Lack of well developed data / information system; Most of the units are not working in groups or cluster; Due to draught conditions, migration of man-power to Goa and Maharastra pose shortage of skilled and un-skilled labours; Phasing out of Q.R. lowering of tariff on imports leading to the loss of protected environment. The sector in the district is facing the cut throat domestic competition; Inadequate capital; The district has limited resources.

Opportunities: The following are some of the opportunities for SSIs in Bijapur District:

- The products of agriculture and horticulture can be properly used. Floriculture is developing recently and has good potential.
- Bijapur is rich in livestock population, so there is a vast scope for dairying.
- Bijapur district includes many historical places therefore, there is vast scope for tourism services.
- The district has abundant human resources (both skilled and unskilled) which needs to be utilized effectively.
- There is an opportunity to strengthen the production of leather and leather products, as the district possesses rich livestock population.
- Service sector is growing in a faster way and there is vast scope for repairs and maintenance, telecommunication and other services.
- Bijapur district has abundant water resources, that needs to be utilized properly and gives scope for the establishment of new industries.
- Building stone, Jelly stone, stone slabs are available in the district and there scope for quarrying.

On the basis of available resources food and beverages, textiles, wood and wood products, printing and stationary leather products, rubber and plastic, chemical and chemical products, glass and ceramic, general engineering, electrical and electronics, automobile, transport equipments, job work, repairs and maintenance and other miscellaneous product Industries may be encouraged in the district. Hotel business, transport service, guiding service, financial service and other tourism related services are the potential areas in the service sector.

Conclusion

Competitiveness and quality are the buz words in the globalization era. The survival of the small enterprises largely depends on improvement in the quality of output. Hence, the small enterprises need to adopt change if they have to find a place in the competitive environment. Bijapur district is not an isolated area. If the SSI sector is properly linked with the State, Nation and the world, definitely, the sector will grow in a big way. To enhance the competitiveness of SSI sector of the study area what the small industry need is institutional support to fund technology up-gradation and modernization. They also need infrastructural support and adequate working capital from the banking sector. The New Industrial Policy 2006 contains package of incentives and concession, the effective implementation of the policy is needed for the growth of this sector. Bijapur is the only district in the Sate which is exhibiting 15% growth rate as per Dr. D. M. Nanjundappa Committee Report. There is vast scope for service sector, oil mills, plastic units, ready made garments, stone crushers, grape processing units and wine park.

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Corrigendum

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HR Perspectives in Indian Banking System

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Management of Non-Performing Assets in Public Sector Banks

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Banking sector in India has given a positive and encouraging response to the financial sector reforms, which were brought the Indian financial system closer to global standards. With the entry of new private banks and foreign banks has shaken up Public Sector Banks (PSBs) in the competitive changing financial scenario and have opened up opportunities for banks to expand their global presence through self-expansion, strategic alliances, etc. After the liberalization of the Indian economy, the Government has announced a number of reform measures based on the recommendation of the Narasimhan Committee to make the banking sector economically viable and competitively strong. The RBI has been introduced the concept of Non-Performing Asset (NPA) and certain norms with effect from 1.4.1992 which are useful not only to know the true financial position but also to take corrective steps for improving the performance of their loan portfolios. The issue of mounting NPAs is giving jitters to banking sector particularly in many a developing economy. This article attempts to focus on the asset-wise, sector-wise NPAs and also examined the quality of loan assets as well as the distribution of PSBs by the ratio of net NPAs to net Advances.

Introduction

One of the key constitutes of the financial sector in India is the banking system, which has been playing a significant role in the national economic development by providing the provision of intermediation services, the capital formation process and enhancing resources in the direction of national objectives and priorities. Since the early 1990s, the structure of the banking sector has significantly changed due to deregulation and liberalization, accompanied by divestment of public banks and entry of new private and foreign banks. These developments are expected to have important implications for operating performance and profitability in the Indian Public Sector Banks (PSBs)[1]. After the liberalization of the Indian economy, the Government has announced a number of reform measures based on the recommendation of the Narasimhan Committee to make the banking sector economically viable and competitively strong. The RBI has been introduced the concept of Non-Performing Asset (NPA)[2] and certain norms with effect

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from 1.4.1992 which are useful not only to know the true financial position but also to take corrective steps for improving the performance of their loan portfolios.

In the liberalizing economy, banking and financial sector reforms assume high priority. The new economic reforms have given a new thrust to the banking sector as a whole. In spite of the commanding role of the Indian banking sector last five decades even under the competitive global environmental conditions, the Scheduled Commercial Banks (SCBs)[3] in India currently suffers from a number of weaknesses such as low recovery rate of credit, high costs, poor management practices, trade union pressures, political interference and unprofitable branches and mounting NPAs.

Need of the Study

The problem of non-performing asset is ravaging some of the even advanced economic countries like Japan. One of the international rating agencies is assessed recently that the real level of NPAs of China may be over 50 percent and for Indian system, it can be placed at over 20 percent, after making a marginal allowance, forever greening[4] . The high level of NPAs in banks and financial institutions has been a matter of concern to the economic growth of the country and any bottleneck in the smooth flow of credit, one cause for which is the mounting NPAs, is bound to create adverse repercussions in the economy. In 2000 and beyond, the key element is that banks should strive to achieve significant increase in their assets for creating a vibrant and competitive financial system. In the context of global competition, it is a paramount task for the Indian banks to manage their NPAs to performing assets. Therefore, there is a need to examine the strengths and weaknesses of the banking sector and managed NPAs by the banks. The banks find it challenging to identify feasibility of recovery of NPAs, which needs a high-level expertise in an effective control of mounting NPAs. As such, it is proposed to select the PSBs for the following reasons:

1. The PSBs has number of branches operating at present, which is high cost in operating[5] .
2. The PSBs has heavier investment in priority sector, which is slow performance[6] .
3. The PSBs has heavier investment in government securities, which are low performing[7] and low productivity[8] .

Objectives

The main purpose of the study is to examine the performance of loan portfolios and procedures of decision making in the area of management of NPAs in Public Sector Banks, focussing on quality of assets.

Hypotheses

The following hypotheses have been formulated:

1. There is no significance difference between the asset-wise classifications of NPAs of PSBs.

2. Whether, is there any significance difference in the recovery of mounting NPAs among the different sectors of the PSBs for the study period?
3. Is the recovery of mounting NPAs equal within the Priority Sectors of SBs?

Methodology

The present study is a case method of research. The relevant data have been collected from secondary source comprises of published reports of CMIE, RBI Bulletin, IBA Bulletin, Reports of Economic Survey of India, Global Financial Stability Reports, Report on Trend and Progress of Banking in India, Various reputed Journals and Magazines, Annual reports of RBI for the time period form 1999-00 to 2006-2007. The information browsed from internet from the related websites and other banking industry agencies. The collected data on management of loan portfolio of the PSBs is classified, tabulated and analysed in a systematic manner. For the data analysis various statistical tools are employed viz, trend analysis, percentages, bar diagrams, comparative analysis, correlation and employed *ANOVA* test to understand the impact of NPAs on profitability, solvency and liquidity of the Public Sector Banks.

Management of NPAs in PSBs

Asset-wise Classification*:* NPAs are further categorised into three groups such as Sub-standard, Doubtful and Loss Assets, stated in the table-2, which clears that there has been marginal decrease in quantum of Doubtful assets over the study period. Doubtful Assets in absolute terms decreased from Rs. 30,535 crores at the end-March 2000 to Rs. 19,873 crores at the end-March 2007. In relative terms, there has been a significant reduction in Doubtful assets since the percentage to the Total Advances came down to 1.36 percent from 8.03 percent for the same period. The increase in the share of Standard Assets to Gross Advances from 85.98 percent with the amount of Rs. 3,26,783 crores in 1999-00 to 97.34 percent with the increased amount of Rs. 14,25,519 crores at the end-March 2007 was a significant enough. The increase in Standard Assets both in absolute and relative terms speaks for the efficiency of the PSBs. Data relating to Sub-standard Assets advocate favour of the PSBs efficiency in managing its loan portfolio, which was decreased to 0.97 percent at the end-March 2007 from 4.30 percent at the end-March 2000. Regarding the quantum of Sub-standard Assets decreased from Rs. 16,361 crores to Rs. 14,275 crores for the same period. Whereas in the case of Loss Assets also the same.

Trend is observed i.e., decreased from 1.69 percent with an amount of Rs. 6,398 crores to 0.33 percent with the amount of Rs. 4,826 crores for the same period of study. It also calculated the Co-efficient of Correlation Co-efficient of Determination between the performing (Standard) and Non-standard Assets is recorded a high degree of negative correlation (i.e., r=-0.97 and R^2=0.9409), which shows the assets are in right direction over the study period.

Table 1: Classification of loan assets of PSBs at the end of March 2000 to 2007 (in Rs. crores)

Year	Standard Assets		Substandard Assets		Doubtful Assets		Loss Assets		Total NPAs		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Advances
1999-00	3,26,783	85.98	16,361	4.30	30,535	8.03	6,398	1.69	53,294	14.02	3,80,077
2000-01	3,87,360	87.61	14,475	3.33	33,485	7.57	6,544	1.49	54,504	12.39	4,42,134
2001-02	4,52,862	88.90	15,788	3.10	33,658	6.61	7,061	1.39	56,507	11.10	5,09,368
2002-03	5,23,724	90.64	14,909	2.58	32,340	5.60	6,840	1.18	54,089	9.36	5,77,813
2003-04	6,10,435	92.21	16,909	2.55	28,756	4.35	5,876	0.89	51,541	7.79	6,61,975
2004-05	8,30,029	94.56	11,068	1.26	30,799	3.50	5,929	0.68	47,796	5.44	8,77,825
2005-06	10,92,607	96.28	11,453	1.01	25,028	2.21	5,636	0.50	42,117	3.72	11,34,724
2006-07	14,25,519	97.34	14,275	0.97	19,873	1.36	4,826	0.33	38,974	2.66	14,64,493

Coefficient of Correlation, r between Performing (Standard assets) and Non Performing assets (Sub Standard + Doubtful and Loss assets) is -0.97 and Co-efficient of Determination, $R^2 = 0.94$

Source: Money & Banking Centre for Monitoring Indian Economy, 2000-07.

Sector wise NPAs of PSBs

The total NPAs of PSBs are classified into three categories viz. Priority Sector Public Sector and Non-priority Sector, shown in the below table-2 for the periods from 1999-00 to 2006-07. This exhibits that though the amount of NPAs in Priority Sector of PSBs decreased from Rs. 23,715 crores at the end-March 2000 to Rs. 22,954 crores at the end-March 2007, but the proportion of NPAs in Priority Sector to the total NPAs of the PSBs has been significantly increased from 45.50 percent to 59.46 percent for the same period. Whereas the Public and Non-priority Sector amounts decreased from Rs. 1,055 crores and Rs. 28,524 crores to Rs. 490 crores and Rs. 15,158 crores respectively as well as the proportion of NPAs of PSBs has also been observed a down trend i.e., from 2 percent and 53.50 percent to 1.27 percent and 39.27 percents for the same period. However, the total Sector-wise NPAs of PSBs recorded a decreasing trend except in the Priority Sector.

Table 2: Sector wise NPAs of PSBs (As at the end of March 2000 to 2007)

(Rs. Crores)

Year	Various Sectors			Total
	Priority Sector	Public Sector	Non-Priority Sector	
1999-00	23,715 (44.5)	1,055 (2.00)	28,524 (53.50)	53,294 (100)
2000-01	24,156 (45.43)	1,710 (3.22)	27,307 (51.35)	53,173 (100)
2001-02	25,139 (44.49)	1,116 (1.98)	30,251 (53.53)	56,506 (100)
2002-03	24,938 (47.23)	1,085 (2.05)	26,783 (50.72)	52,806 (100)
2003-04	23,840 (47.54)	610 (1.22)	25,698 (51.24)	50,148 (100)
2004-05	23,397 (49.05)	450 (0.95)	23,849 (50.00)	47,696 (100)
2005-06	22,374 (54.07)	340 (0.82)	18,664 (45.11)	41,378 (100)
2006-07	22,954 (59.46)	490 (1.27)	15,158 (39.27)	38,602 (100)
r *	0.87	0.74	0.99	
r **	- 0.97	0.66	0.95	

Note: 1. Figures in Parenthesis indicate percentages to the total sector amount

2. r*= Coefficient of Correlation between the amounts of different sectors to the total amounts.

r**= Coefficient of Correlation between the proportion of different sectors to the total amounts.

Source: Report and Trend Progress of Banking in India from the year 2000 to 2007.

The calculated value of Co-efficient of Correlation, r, of the different Sectors to the total amounts of sector wise NPAs is observed a high degree of positive correlation, but the proportionate NPAs recovery in the Priority Sector is recorded a high degree of negative correlation, r= - 0.97. This shows there is a menace of NPAs in the Priority Sector. To examine the same the null hypothesis has been set up that there is no significance difference in recovery of NPAs by the Sectors, for which the F-test is applied and the result presented in the one-way classification of ANOVA in Table 2. Since, the calculated value is greater than the table value at 5% level of significance. The hypothesis is rejected. We conclude that there is a significant difference among the Sectors in the recovery of mounting NPAs.

Table 2a: ANOVA Table

Source of variation	*Sum of squares*	*Degrees of freedom ,v*	*Mean squares*	*F*	*F0.05*
Between samples (sector-wise NPAs)	*12017*	*2*	*6008.50*	*348.52*	*3.47*
Within samples	*362*	*21*	*17.24*		
Total	*12379*	*23*			

Priority Sector NPAs in PSBs

The Priority Sector includes Agriculture, Small-Scale Industries (SSIs), Other Sectors with a view to ensuring flow of credit to these neglected sectors, the concept of priority was evolved, and commercial banks of India were advised to grant at least 40 percent of their total advances to the borrowers in the Priority Sectors. The NPAs of Priority Sector of PSBs is depicted in the table-3, which discloses the NPAs of Agriculture Sectors to the total Priority Sector

Table 3: Priority sector NPAs of public sector banks

(Rs Crores)

Year	Agriculture (i)	Small-Scale Industries (ii)	Others (iii)	Total Priority Sector (+ii+iii)
2000-01	7,377	10,339	6,440	24,156
	(30.54)	(42.80)	(26.66)	(100)
2001-02	7,821	10,584	6,734	25.139
	(31.11)	(42.10)	(26.79)	(100)
2002-03	7,706	10,162	7.070	24.938
	(30.90)	(40.75)	I (28.35)	(100)
2003-04	7,240	8,838	7,762	23.840
	(30.37)	(37.07)	(35.26)	(100)
2004-05	7.254	7,835	8,308	23.397
	(31.00)	(33.49)	(35.51)	(100)
2005-06	6,203	6,917	9,253	22,374
	(27.72)	(30.92)	(41.36)	(100)
2006-07	6,506	5,843	10,604	22,954
	(28.34)	(25.86)	(45.8)	(100)
r	0.957	0.90	–0.82	
R^2	0.90	0.81	0.67	

Note: 1. Figures in Parenthesis indicate percentages to the total Priority Sector amount.

2. r= Coefficient of Correlation, R^2= Coefficient of Determination

Source: Report and Trend Progress of Banking in India from the year 2000 to 2007.

NPAs of the PSBs is marginally decreased from 30.54 percent at the end-March 2000 to 28.34 percent at the end-March 2007 as well as the same trend is observed in the case of SSIs for the same period i.e., declined from 42.80 percent to 25.86 percent. On the other hand, the Other Sectors' amount of NPA is increased from Rs. 6440 crores with 26.66 percent to the total Priority Sector at the end-March 2000 to Rs. 10,604 crores with 45.8 percent at the end-March 2007.

It is also found that there is a high degree of positive correlation regarding the recovery of mounting NPAs in Agriculture and SSIs sectors to the total Priority Sector of PSBs but there is an inverse relation i.e., a high degree of negative correlation, r= - 0.82 between the Others Sector and the total Priority Sector. This proved that there is mounting of NPAs in the Others Sector over the study period.

Quality of Assets in PSBs

Today the quality of loan assets is the most important factor for the basic viability of the banking system. The over due advances of banks in India are mounting and in consequence, the NPAs in their portfolio are on the rise, impinging on the bank's viability. This not only eats into the banks' profitability but also hampers their ability to recycle the funds for productive purposes. Avoidance of loan losses is one of the pre–occupations of management of banks. Complete elimination of such losses is not possible, bank management's aim to keep the losses at a low level. In fact, it is the level of NPAs, which to a great extent, differentiates between a good and bad bank.

For clear understanding of the effective management of NPAs of PSBs is presented in the table-4 and is evident that the amounts of Gross NPAs and Net NPAs were recorded a decreasing trend from Rs. 53,033 crores and Rs. 26,187 crores respectively to Rs. 38,968 crores and to Rs. 15,145 crores

Table 4: NPAs as percentage to total assets and to total advances

(Rs. Crores)

Year	Gross NPAs			Net NPAs			Total Assets Rs.	Total Advances Rs.
	Amount Rs.	% to total Assets	% to total Advances	Amount Rs. Assets	% to total Advances	% to total		
1999-00	53,033	5.95	13.95	26,187	2.94	6.89	8,90,600	3,80,077
2000-01	54,672	5.31	12.37	27,977	2.72	6.33	10,29,972	4,42,134
2001-02	56,473	4.89	11.09	27,958	2.42	5.49	11,55,737	5,09,369
2002-03	54,086	4.21	9.36	24,963	1.94	4.33	12,85,236	5,77,813
2003-04	51,537	3.50	7.79	19,335	1.31	2.92	14,71,077	6,61,975
2004-05	48,399	2.86	5.51	16,904	0.99	1.93	16,92,579	8,77,825
2005-06	41,358	2.10	3.64	14,566	0.72	1.28	20,14,898	11,34,724
2006-07	38,968	1.59	2.66	15,145	0.62	1.03	24,39,986	14,64,493

Source: Source: Money and banking centre for monitoring Indian Economy and RBI Reports from 2000-07.

during the study period. As the ratio of Gross NPAs to total Assets and to total Advances marginally decreased to 1.59 percent and 2.66 percent respectively from 5.95 percent and 13.95 percent whereas the ratio of Net NPAs to total Assets and to total Advances also decreased from 2.94 percent and 6.89 percent respectively to 0.62 percent and 1.03 percent for the same period. This indicates that the PSBs are more effective in improving the quality of assets and has reached below the international standard level of 2 to 3 percent due to with the help of reforms in the legal system in the recent years such as SARFAESI Act 2002, ARCs Lok Adalats, OTS and others.

Distribution of PSBs by Ratio of Net NPAs to Net Advances

The distribution of PSBs by ratio of net NPAs to net Advances examined to know the number of banks performance in improving the recovery of mounting NPAs, whose number come under the category of upto 2%, 2-5%, 5-10% and above 10%, presented in the Table 5. The table reveals that there is no single bank in the international norm 2-3% of NPA upto at the end–March 2000, but later on all the PSBs were under the category of 2 % of net NPAs at the end–March 2007. This shows that there is an effective recovery of mounting NPAs in all the PBSs with the help of effective implementation of RBI guidelines.

Table 5: Distribution of PSBs by ratio of net NPAs to net advances

Year	No. of PSBs lie under the rate of NPA				Total PSBs
	Below 2%	2%-5%	5%-10%	Above 10%	
1999-00	0	22	05	0	27
2000-01	01	05	16	05	27
2001-02	0	11	13	03	27
2002-03	04	14	07	02	27
2003-04	11	13	03	0	27
2004-05	19	07	02	0	28
2005-06	23	05	0	0	28
2006-07	27	01	0	0	28

Source: Report and Trend Progress of Banking in India from the year 2000 to 2007.

Conclusion

In the changing banking scenario, the PSBs are leading in the SCBs, which welcome the radical changes, make the organizations fit for the changes without much difficulty and achieved the tasks and targets time to time and continuously retained a good position creating a record in the use of Information Technology by providing any where any time banking facilities and fully computerizing their branches very rapidly. The study reveals that the asset wise classification recorded a high degree negative correlation between performing and non-performing assets. This show the assets of PSBs are in right direction. The analysis regarding the sector-wise NPAs shows that there is significant difference among the Sectors in the recovery of mounting NPAs. Further there is high degree of negative correlation in the Other Sector of the Priority Sector, which shows a significant increase in the mounting NPAs for the study period. Thus, the PSBs need to reduce the allocation of credit to Other sector where the number of factors emerged like wilful defaulters, political interference and also concerted efforts are required at Ministry of Finance, RBI and banks' level to control the menace of NPAs in the PSBs. It will be better if the government does not use PSBs as a means accomplishing its political objectives by lending to unviable projects, announcing loan melas and loan waiver schemes, etc. The PSBs should not be loaded with the twin objectives of profitability and social welfare, which are mutually incongruent.

The study also clears that the ratio of Gross and Net NPAs to total Advances have consistently decreased from 13.95 percent and 6.89 percent to 2.66 percent and 1.03 percent respectively from the end–March 2000 to 2007. It is an indication of good recovery and sufficient provisioning for doubtful debts and write-off bad debts. The study also depicted that the distribution of PSBs by the ratio of Net NPAs to Net Advances come under the category below 2% Net NPA at the end–March 2007, earlier there was no bank under this category at the end-March 2000. This clears that all the PSBs are much higher than the international norms like Basel-II and other international best practices. Surely, the reforms in the legal system in the recent years such as SARFAESI Act 2002, Asset Reconstruction Companies (ARCs), Lok Adalats, One Time Settlement (OTS), Debt Recovery Tribunals (DRTs) and others, will help in faster recovery of mounting NPAs.

Notes

[1] *The total PSBs are 27, of which 19 Nationalised Banks and SBI and its Associates, 8 as at the end-March 2006.*

[2] *The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 defined NPAs as "an asset of account of a borrower, which has been classified by a banker financial institution as sub-standard, doubtful, or loss assets in accordance with the direction and guidelines relating to asset classification by the RBI". From 31st March 2004, an asset is considered to have gone bad when the borrower has defaulted on principal and interest repayment for more than one quarter or 90 days.*

[3] *As at-end March 2006, the number of SCBs are 289, Schedule Co-operative Banks, 73, Foreign Banks, 36, Old Private Banks, 21, New Private Sector Banks, Regional Rural Banks (RRBs) 196 and the PSBs 27.*

[4] *Global NPL Report 2004, Earnst and Young.*

[5] *The total number of Branches established in PSBs are 47,843, which include Nationalised Banks with 34,012 branches of which 12,990 branches were set up in Rural, in Semi-urban 7,103, Urban with 6,990 and in Metropolitan 6,929 branches; and State Bank Group total number of Branches are 13,831, of which the branches were opened in Rural 5,229, Semi-urban 4,043, Urban 2,449 and Metropolitan 2,110 as at end-March 2006.*

[6] *The total Advances to the Prioroty Sectors Rs. 5,21,180 Crores with 39.6 percent to the total Net Publc Sector Banks Credit Rs. 13,17,705 Crores. The total Priority Sector includes Agriculture, Small-Scale Industries (SSIs) and Other Priority Sector, with the Credit amount given to them respectively are Rs. 2,05,091 Crores, Rs. 1,04,703 Crores and Rs. 2,01,023 Crores with 15.6 percent, 8 percent and 15.3 percent to the total of PSBs Net Credit as at end-March 2007.*

[7] *The PSBs total Assets amount of Rs. 24,39,986 Crores, total Credit Deposit of Rs. 19,94,2.. Crores and total Advances of Rs. 14,40,123 Crores with a Total Income of Rs. 1,88,979 Crores, total Expenditure incurred an amount of Rs. 1,68,827 Crores and retained Profit of Rs. 20,152 Crores, which were proportionate to the total Assets of PSBs with the percentages of 7.75, 6.92 and 0.83 respectively.*

[8] *The total PSBs Volume of Business (Deposits+Advances) Rs. 34,323 Crores; Business Per Employee with Rs. 484.08 lakhs and Profit Per Employee Rs. 3.12 lakhs as at the end of March 2007.*

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Educated Youth and Unemployment in Ethiopia

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This paper discusses about the educated youth and unemployment scenario in Ethiopia.

Introduction

Ignited minds of the youth are the greatest resource compared to any other resource on the earth, under the earth and above the earth (Abddul Kalam, 2004). Youth is the backbone of any society on which growth and well being of a nation depends. Educated youth in this regard have greater potential to support the society. They can also be viewed as a precious economic resource as well as investment center having investments from parental, societal and educational systems (Soral, 2005). However, many developing countries including those having abundant manpower have failed to utilize this precious resource adequately. Unemployment among youth in general and educated youth in particular has been a matter of concern for social scientists, economists and governments all over the world. Any unemployment or underemployment of such precious human resource is economic wastage. Under utilization of such resources have many problems which adversely affect the individual, family and society at large. Some of such ill effects include: insurgency, drug abuse, poor health conditions, teenage pregnancy, HIV/ aids infection and poverty. According to ILO Director-General Juan Somavia "we are wasting an important part of the energy and talent of the most educated youth generation the world has ever had (ILO, 2004)".

The fact that eighty-five per cent of the world's youth live in developing countries where they are 3.8 times more likely to be unemployed than adults shows vulnerability of the situation. Expanding young people's access to decent and productive work is one of the Millennium Development Goals. With half of the world's unemployed between the ages of 15 and 24, the challenge is considerable. This is especially so in poor countries of Asia, sub-Saharan Africa and the Middle East, where youth populations are still growing. The world's highest youth unemployment rates are in sub- Saharan Africa, the poorest region (UNFPA, 2005).

Nearly two-thirds of the population of many African cities is between the

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ages of 12 and 25. Most of these young people live in informal settlements without basic facilities, services and security. Children of poverty are becoming criminals as young as the age of 10. These young people are also most at risk of becoming the victims of crime (UN Habitat, 204).

Researches have shown that there has been slow economic growth over several years, which exacerbates the problem of inadequate employment opportunities, especially for students leaving school, and adds to the hardship (H Baxter, 204). This is very true in Ethiopian case where the growth rate of GDP per capita has been 0.1% over the past 40 years (EEA, 2004-05) formal sector is small and opportunities in the labor market are very limited.

Ethiopia is a predominantly youthful country with 65% of population under 25 years of age (EEA, 2003-04). Unemployment has already become a serious problem in this country and may worsen in the future, as the number of graduates is increasing every year with increased number of higher education institutions but there is no promising growth in job opportunities and / or economy as a whole. Further, the traditional approach to education as a means for social / economic mobilization is no longer valid. Educated youth are no longer assured of a job when they complete their schooling (Lydia 2003-04).

According to the 1999 National Labor Force Survey, the unemployment rate in Addis Ababa is 30.7% while in other urban centers of the country it is 15.5% (EEA, 2003-04). To maintain the current unemployment level (i.e. not to let the situation to worsen) by 2050, an average of 1.8 million jobs per year need to be created (Daniel, 2003-04). The growing number of unemployed young people and the lack of opportunities for the improvement of their condition are leading to an even greater social, political, cultural, and environmental crisis (Lydia, 2003-04). The negative effects of unemployment problem strike deep into the psyche of educated youth and dampen their expectations (Pal, 2006).

Tackling youth unemployment and the consequent vulnerabilities and feelings of exclusion would be a significant contribution to the global economy. According to an ILO report, halving the world youth unemployment rate would add at least US$ 2.2 trillion to global GDP, equal to around 4 per cent of the 2003 global GDP value (ILO, 2004).

Objectives

The present paper focuses on the causes behind unemployment and / or underemployment of youth in general and educated youth in particular. It has also been tried to explore the minds of youth and their perception about the problem, its causes and possible solutions. The major objectives of this paper include the following:

- Identifying the severity of unemployment, its causes and consequences
- Identifying solutions to curb the unemployment
- Identifying employment preferences of youth, and
- Suggesting measures for improvement

Methodology

The paper is based on both primary and secondary data. A survey was conducted to gather primary data from the respondents. The area covered under the survey includes Gondar, Bahardar, Mekele, Addis Ababa and Nazreth. Respondents include students from universities as well as private colleges and others who have recently joined some organizations as employees. Sample institutions were selected using judgment sampling; however, the respondents were selected using normal random sampling. Respondents were supplied with questionnaires and given two days time to fill up the questionnaire and return the same. The response rate has been quite encouraging (about 90%).

Findings

The main findings of the survey are:

Profile of the Respondents: Nearly 85% of the respondents are final year degree students from various universities and private colleges. The remaining represents, masters and diploma students and those who were either unemployed or recently got some employment after waiting for long time. The later group represents some sort of underemployment as most of the respondents were found working in positions lower than they deserve. The profile of 137 respondents (who replied) out of 150 respondents (who were supplied questionnaires) is presented in Table 1. Nearly 75% of the respondents are aged between 18 to 25 years. It indicates imbalance in the composition of male and female students at the higher education institutions. Enrollment of female students in higher education institutions was only 25.2% in the year 2003 -04 (MOE, 2005). The low ratio of females in HE institutions is apparent in the composition of respondents as well.

Table 1: Age and gender wise distribution of respondents

Sl. No	Age Group	Male	Female	Total
1	Up to 20 years	24	6	30
2	21 to 25 years	60	14	74
3	26 to 30 years	14	3	17
4	31 to 35 years	7	0	7
5	36 years and above	8	1	9
	Total	113	24	137

Severity of Unemployment: It is evident from Table 2 that about 60% of respondents have opined that the problem of unemployment in the country is very severe. It gives an alarm for the government and other concerned authorities to look in to the matter and take corrective measures before the situation worsens further. Table 2 also indicates the imbalance in the composition of male and female students at the higher education institutions. However, the response of both males and females to the question of severity of unemployment is more or less similar.

Table 2: Severity of unemployment

Severity	Total Respondents		Male		Female	
	Number	%	Number	%	Number	%
Very Severe	83	60.58	68	60.18	15	62.5
Severe	39	28.47	31	27.43	8	33.33
Moderate	6	4.38	5	4.42	1	4.17
Very low	8	5.84	8	7.08	0	0
Not at all	1	0.73	1	0.89	0	0
Total	137	100.00	113	100.00	24	100.00

As depicted in the Table 3, Ethiopian youth perceive that lack of job opportunities (average rank 2.34) is the biggest cause behind the menace of unemployment followed by poor economic growth (average rank 2.85). It is to be noted that lack of job opportunities and poor economic growth has vicious effect on each other. Modal rank also suggests that most of the respondents assigned first rank to the lack of employment opportunities as the main cause. Other causes were ranked fairly similar which indicates that there is plurality of causes behind the problem of unemployment and collective efforts of various agencies only can help to tackle this situation.

Consequences of Unemployment: The findings regarding consequences are presented in Table 3.

Solutions: Most of the respondents agreed that non government organizations have to play an important role in order to curb the menace of unemployment. It is evident from the mean rank 2.38 as well as modal rank 1, i.e. majority of survey participants assigned first rank to this alternative. Church or other social groups were ranked next to the NGOs to take some action to cope up with the problem. Creation of more jobs by the government was ranked third. Here it is important to note that youth does not expect much from the government as compared to NGOs or social activity groups. It may be due to their non satisfaction from the government policies or other causes. Other factors such as improvement in education, better vocational trainings, finance facilities etc. were assigned fairly similar and lower ranks as compared to alternatives mentioned earlier, which indicate that in opinion of respondents these facilities are already in satisfactory conditions.

Employment Preference: The response to above question was quite encouraging. As a welcome sign most of the respondents, who are well qualified (educated) in the Ethiopian context, preferred self employment (Table 3). The average rank assigned (1.76) was highest among all the questions seeking ranks from the respondents, which indicates unanimity of the respondents towards self employment as a preferred choice. Most of the respondents reveal that self employment is their first priority (modal rank 1). It should be noted that if government creates conducive environment for self employment and provides infrastructural facilities the youth are ready to show their competence in this area. Further, it should be noted that self employment will have multiplier effect on the overall job market as

Table 3: Causes, consequences and solutions of unemployment

S. No.	Factors	Ranks Assigned	
		Mean	Mode
a)	**Cause of Unemployment**		
1	Lack of qualification	3.95	2
2	Lack of enterprise by the candidate	4.43	5
3	Lack of commitment and hard work	4.38	5
4	Lack of job opportunities	2.34	1
5	Lack of funds for self employment	3.64	2
6	Poor economic growth	2.85	2
7	Corruption	3.92	4
b)	**Consequences of Unemployment**		
1	Insurgency	3.92	2
2	Drug abuse	4.36	5
3	Poor health conditions	4.34	5
4	Poverty	2.40	1
c)	**Solutions for the Problem of Unemployment**		
1	Improved education	3.76	2
2	Better vocational and other trainings	4.27	5
3	Finance facilities	4.32	5
4	Effort by NGOs	2.38	1
5	Creation of more jobs by the Government	3.62	2
6	Church or other social groups to take action	2.63	2
d)	**Employment Preference of Respondents**		
1	NGO	2.93	3
2	Multinational companies	3.54	5
3	Other private sector	2.84	1
4	Government sector	4.88	5
5	Self employment	1.76	1

it will create jobs for others directly or indirectly. Self employment will have better impact on overall economic conditions of the country as compared to other alternatives. The second choice was other private sector (average rank 2.84), which is again in tune with the government policy of privatization and globalization and a good sign for the future prospects of the country.

The third choice was NGO jobs followed by multinational companies and government sector, the least priority. The above findings indicate that youth do not expect the government to create more jobs or they do not find that it may be feasible. Rather, they expect the government to play the role of a catalyst and create an enabling environment for self employment and development of private sector.

Suggestions

There is a need of value addition to the youth so as to enable them to play their roles as entrepreneurs or as employees. Here it is apparent that joint efforts of educational institutions (particularly tertiary level), various government agencies, NGOs and other social groups have to work hand in hand to create enabling environment for self employment and inducing in youth the traits, which are necessary to make them more employable. The following section represents a few suggestions, which have been divided into three parts.

Role of Higher Education Institutions: Education is critical to the process of young people developing and achieving their full potential. It is the means by which knowledge, skills and competencies are acquired for survival in one's environment. It is through education, formal or otherwise, that people learn cultural and social values, acquire a better understanding of themselves and their environment, and improve their standard of living and social status. It is thus a powerful tool in our efforts to foster the creation of the individuals and the society which we desire (NYP, 2003). It is a well known fact that appropriate education and training can play a significant role in the employability of youth. The following points among others may be helpful in this direction.

1. Well established career counseling and placement services at higher education institution to bring coordination between the efforts of academia, industry and the government.
2. Better interaction between employers and educational institutions.
3. Suitably modify the curricula to make it more relevant to the needs of both the youth and their potential employers. Here again the active participation of youth will prove to be helpful in identifying courses, modes of delivery and other requirements. However, there is need of further research in this area.
4. Instill traits which are expected by the prospective employers such as communication skills, diligence, resilience, honesty, commitment and ability to be in team both as leader and a member.
5. Work closely with industry and other partners to increase the opportunity of better on the job training for students during campus life.
6. Imparting entrepreneurship training and establishing links with government schemes and programs to increase self employability of youth.

Role of Government and other Related Agencies: In order to ensure more secure, equitable and sustainable future governments and other related agencies have to play the role of catalysts by creating enabling environment, improving the infrastructural facilities and ensuring equitable access to the various schemes. There is need of ensuring youth participation at various levels as well. Following are a few steps that may be taken in this direction:

- Government should device incentive schemes and favorable tax policies for self employment.

- Incentives should be provided for those employing inexperienced youth
- Improve infra-structure facilities like electricity, transportation and communication in disadvantaged areas to create more job opportunities there (Perera, 2004).
- Improve credit and marketing facilities for promoting self employment.
- Adopt a multi-sectoral approach to youth development so as to bring coordination between various agencies involved in youth affairs (NYP, 2003).
- Opportunities for promotion of small and micro enterprises should be created.
- Organize appropriate training programs, trade fairs and other events to mobilize interaction between various agencies.

Some of the general suggestions are as follows:

- It is the time to guide educated youth to cope up the challenges through mechanisms that facilitate attitudinal changes and positive thinking so that human resources are properly directed towards development processes.
- There is special need for attention on the employment of youth with disabilities. It is needed to increase access of this group to education and training facilities, which deals with specific needs.
- Organize an annual youth parliament to provide a forum for hearing their views and promote participation of youth in policy decisions.
- There is need of study of comparable economies and assess opportunities for commercial activities in agriculture, handicrafts and services so as to actively involve youth in such activities through the concept of micro enterprises.
- Encourage the youth participation in agriculture especially agro based industry to promote self employment.
- Last but not the least we must inform our youth about their responsibilities with the same energy and passion with which we inform them about their rights so as to prepare young generation full of commitment, devotion and other social and ethical values.

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Identifying Executive Competencies

R. PANCHALAN

In this article, an attempt has been made to identify the competencies, which are contributing for threshold performance and superior performance of executives. The competencies, which are essential for doing a particular job but would not contribute for superior performance, are called threshold performance competencies. Superior performance competencies are the competencies, which are contributing for superior performance of individual and differentiate the superior performers from average ones.

Introduction

As today's organizations are facing severe competition from within and outside the country, they need only smart, competent and outstanding people. That is, the people who have the capabilities to keep pace with the growing demands of the organization, learn continuously, update the knowledge, skills and abilities constantly and perform the job at superior level. Competitive advantage derived from physical assets is seldom maintained in the long run. Organization that finds, develops and motivates talented people to a common goal will be winner in the competitive world in which we operate (Bain, 1995). Competitive advantage stems from a firm's unique resources and capabilities and most organizational competencies start with individuals. Therefore, identifying the competencies and attributes is important for the successful performance of employees. Assessing the present levels of competencies of individuals to the required competencies and finding out the competency gap between the required competency level and individuals present levels are becoming critical activities of any business.

The Oxford Learner's Dictionary described competency as a skill that one needs in a particular job for a particular task. Boyatzis (1982) defines competencies, as the underlying characteristics of a person, which can be a motive, a trait, skill, an aspect of one's self image or social role or a body of knowledge which he or she uses. Marshall (1996) defines competency as the underlying characteristics of person which enable him/her to deliver superior performance in a given job, role or situation. Thus, competency can be described as a set of knowledge, skills, abilities and behavioural attributes which are required to deliver superior performance in a job position.

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Categorization of Competencies

12 major executive competencies were selected for the study. They are listed below:

Table 1 : Categorization of executive competencies

SI.No.	Executive Competencies
1.	Technical and Conceptual Competencies
2.	Leadership Competencies
3.	General Management Competencies
4.	Intellectual and Soft Competencies
5.	Behavioural Competencies
6.	Interpersonal Competencies
7.	Communicative Competencies
8.	Consumer Oriented Competencies
9.	Problem Solving Competencies
10.	Responsibility Bearing Competencies
11.	Political, Social and Cross - Cultural Competencies
12.	Personal Values / Effective Competencies

Methods of Identification of Competencies

Information collected from job analysis and the research on job competencies become base for competency development. Different methods can be used for identification of competencies. Behavioural event interviews, functional analysis, one-on-one interviews with the job incumbents are some of the popular methods used for identification of competencies.

Threshold and Superior Performance Competencies

Competencies can be classified as threshold and superior performance competencies. The competencies, which are essential for doing the job but would not contribute for superior performance, are called as threshold performance competencies. And the competencies, which are distinguishing the superior performers from average performers, are called as superior performance competencies. Cockerill etal (1995), define threshold competencies as units of behaviour, which are used by job holders, but which are not considered to be associated with superior performance. According to them high performance competencies (superior performance competencies) are behaviours that are associated with individuals who perform their duties at a superior level. Boyatzis (1989), distinguished between competencies (superior) and threshold competencies. According to him, the former are underlying characteristics of a person that result in effective and / or superior performance in a job. The latter, a threshold competency, is a characteristic, which is essential to performance. Knowing the local language, understanding and practicing the local culture may help a person to perform the job at adequate level, but they may not differentiate the person from average performers. Hence, these competencies are called as threshold competencies. Doing the job with efficiency orientation and strong desire to achieve something in working life may differentiate top performers from average performers. Hence, they are called as superior performance competencies.

Objectives

The main objectives of the study are listed below:

- To identify the competencies which are required for the successful performance of executives.
- To enumerate the competencies, which are contributing for threshold performance and superior performance of executives.

Methodology

The study is exploratory in nature. It is mainly based on primary data collected from the executives of Neyveli Lignite Corporation Ltd., (NLC).

As the study is mainly concerned with identifying the competencies for threshold and superior performance of executives, a purposive sample (n=120) of highly effective executives (identified in consultation with HR department of the respondent organization) was adopted. A well-structured interview schedule was used for data collection. The interview schedule consisted of 54 executive competencies.

Analysis

Competencies, which are contributing for threshold performance and superior performance can be known from the distribution of respondents on the basis of competencies possessed and demonstrated by them for threshold performance and superior performance.

For the purpose of analysis and identifying the competencies, which are contributing for threshold performance or superior performance of executives, the different executive competencies have been grouped on the basis of the level of competencies possessed and demonstrated by the executives. The competencies, which have obtained score in the range of 361-600 points, are taken as the competencies that are contributing significantly for the performance of executives whether they are in the threshold performance or superior performance. And the competencies that have obtained score in the range of 120-360 points are taken as competencies, which are not contributing significantly in the performance of executives. The above class intervals are obtained by maintaining 50 percent difference between any two consecutive levels of contribution taking into account of min-max score points. The minimum score is taken as the lower limit of lower class interval and the maximum score is taken as the upper limit for the upper class interval. It is to be observed here that the competencies, which are contributing for superior performance, may contribute for threshold performance, but the competencies, which are contributing for threshold performance, may not contribute for superior performance.

Discussion

The analysis of data given by the executives revealed the following results.

Superior performance competencies are differentiating superior (star) performers from average performers; therefore, they are also called differentiating competencies. As superior competencies are difficult to imitate by others they add values to the people who possess these competencies. Of the 44 competencies identified for the successful performance of executives, 15 competencies were identified as superior performance competencies (Table 2).

Table 2 : Superior performance competencies

Sl.No.	Competencies	Definition
1.	Ability for Driving Success	Ability for driving Success.
2.	Commitment to excellence & quality	Ability to emphasis the commitment to excellence and quality on subordinates.
3.	Creativity and innovation skills	Creativity and innovation skills
4.	Flexibility	Ability to adopt behaviours to changes in life and the organizational environment.
5.	Stamina	Ability to work long hours.
6.	Stress tolerance	Ability to perform under pressure (stress) to cope with the necessary efforts to overcome obstacles and / or perform tasks.
7.	Oral communication skills	Ability to speak confidently and fluently at a suitable pace and level.
8.	Written communication skills	Ability to write fluently, clearly, concisely adopting own written communication style to suit others.
9.	Perceptual objectivity	Ability to relatively objective rather than limited by excessive subjectivity or personal bias.
10.	Accepting responsibility	Ability and willingness to assume responsibility.
11.	Self confidence	Having confidence of seeing oneself as an expert.
12.	Efficiency orientation	Spirit or concern with doing things excellently.
13.	Proactivity	Disposition towards initiating activity.
14.	Achievement orientation	A strong desire to achieve something in working life.
15.	Openness and honest	Open and honest.

Table 2 indicates that most of the superior performance competencies fall into the categories of behavioural, communicative, responsibility and personal values/effectiveness competencies. There is great scope for developing the behavioural and communicative competencies and the quality of responsibility and personal effectiveness by providing training and development. Most of the research on competencies highlights that the characteristics of responsibility and other personal values are dominating the characteristics of top/star performers. Therefore, the individuals who want to differentiate from average performers have to learn and acquire the superior performance competencies despite the fact that these are more inborn than acquired. Similarly, the organizations which like to differentiate from others have to focus and develop their core competencies and competencies of their own people. Training and development is a very handsome tool in the hands of organizations to develop the competencies of people.

The present study identified 29 competencies as thershold peformance competencies. Table 3 presents the threshold performance competencies .

Table 3 : Threshold performance competencies

Sl.No.	Competencies	Definition
1.	Specialized knowledge	Specialized knowledge on one's area of specialization.
2.	Technical skills	Ability to use tools, techniques or specialized process systematically and appropriately.
3.	Influencing skill	Ability to influence a group to achieve orgnisational goals.
4.	Ability to build up commitment	Abilty to build up commitment.
5.	Motivation skill	Ability to stimulate others to work effectively.
6.	Developing others	Ability to guide subordinates by giving performance feeback to enable them to attain maximum development.
7.	Team building skills	Ability to build up a sense of team spirit among the group.
8.	Planning and oraganizing skills	Ability to plan and organize effectively.
9.	Delegation skills	Ability to delegate the work to the subordinates to get things done.
10.	Decisiveness	Ability to recognise when decision is required and to act upon it.
11.	Assertiveness	Ability to convey ideas in an assertive manner.
12.	Training skills	Ability to train the workforce to fulfill the gap between the job requirements and the human talents.
13.	Negotiating skills	Ability to negotiate effectively with union and others to reach satisfactory outcomes.

Table 3 contd...

Table 3 contd...

14.	Managing uncertainty	Ability to deal with uncertainty and change.
15.	Interpersonal skills	Ability to deal effectively with others for developing effective relationship.
16.	Empathy	Abilty to sense other people's emotion, understand their perspectie and take active interest in their concern.
17.	Team playing skills	Ability to fit in with the team.
18.	Dissemination	Ability to transmit relevant information in the workplace to those who need to know.
19.	Customer service orientation	Knowing the customer's preference and serving that preference.
20.	Problem identifying skills	Ability to identyfy problems in the organisation.
21.	Problem analytical skills	Ability to analyse business problem logically.
22.	Problem solving skills	Ability to take corrective action when organisation face important, unexpected disturbances.
23.	Resource allocating skills	Ability to allocate and utilize organisational resources on the basis of necessity.
24.	Cross-cultural skills	Ability to deal effectively with the different groups having different cultures.
25.	Social skills	Desire or preferring to live in a community rather than alone.
26.	Self-awareness	Ability to recognize own strengths and weaknesses.
27.	Positive attitudes	Projecting a favourable image about the work and the organisation.
28.	Positive regard	Desire to express a positive belief on others.
29.	Respectability	Respecting and encouraging others and their ideas.

Threshold competencies even though they are not causing or resulting in superior performance are very essential for doing a job. Therefore, an organization should make effort for developing the threshold competencies. It should begin its training and development activities with developing threshold comptencies but it should not end with in it and it should go beyond it.

Conclusion

The competencies identified in this study can be utilized for taking various HR decisions by the concerned organisation. It can prepare executive competencies framework or model to the executive position from the competencies identified. The executive competency framework creates a road map and the map can be used as guide to know what knowledge, skills, abilities and behavioural attributes will be required to successfully perform executive job in the organization. The basic requirement is that the executives must be well educated for the needed competencies. As today's organization requires more star performers developing competencies, particularly superior performance competencies are not only desirable, but very essential.

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Relationship Marketing Strategies and Customer Perceived Service Quality in Banking Sector

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This paper examines the customer relationship measures and strategies being practiced by banks in India and what are the effect of such strategies on service quality as perceived by customers. The present study was undertaken at Udaipur city and customers of some branches of leading Indian banks are considered as sample for the study. The paper also highlights on some of the conceptual issues of the impact of relationship marketing on perceived service quality.

Introduction

Customer relationship management is the strategic use of information, processes, technology, and people to manage the customer's relationship with a company across the whole customer life cycle. Interest in Customer Relationship Management (CRM) began to grow in 1990s (Ling and Yen, 2001; Xu et al., 2002). Regardless of the size of an organization, businesses are still motivated to adopt CRM to build relationship and deal with their customers more effectively. An enhanced relationship with one's customers can ultimately lead to greater customer loyalty and retention and, also, profitability. In addition, the rapid growth of the internet and its associated technologies has greatly increased the opportunities for marketing and has malformed the way relationships between companies and their customers are managed (Bauer et al., 2002).

Although there is no universally accepted definition of CRM but it is widely acceptable as important business approach. Swift (2001, p. 12) defined CRM as an enterprise approach to understanding and influencing customer behaviour through meaningful communications in order to improve customer acquisition, customer retention, customer loyalty, and customer profitability. Kincaid (2003, p. 41) viewed CRM as the strategic use of information, processes, technology, and people to manage the customer's relationship with your company (Marketing, Sales, Services, and Support) across the whole customer life cycle. Parvatiyar and Sheth (2001, p. 5) defined CRM as a comprehensive strategy and process of acquiring, retaining, and partnering

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with selective customers to create superior value for the company and the customer. It involves the integration of marketing, sales, customer service, and the supply-chain functions of the organization to achieve greater efficiencies and effectiveness in delivering customer value. According to Kincaid (2003), West (2001) and Xu et al. (2002) CRM can be classified in three functional areas: (a) Marketing, (b) Sales and (c) Service and Support.

These three components can be seen as the life cycle of customer relationship that moves from marketing, to sales, to service and support (West, 2001). Information Technology and Information Systems can be other vital components in supporting and maintaining above mentioned areas as well as the whole CRM process (Kincaid, 2003). Ling and Yen (2001) have described the evolution of CRM from direct sales to mass marketing, target marketing and then to customer relationship marketing. Relationship marketing implies catch the attention, retaining and enhancing customer relationship. New customer acquisition is always costlier than retaining existing one. A long term customer is less prices sensitive and also helps organizations by word of mouth advertising. Successful relationship marketing strategies depends on how the customers perceive the resulting service quality.

According to Wong and Sohal (2002), the management relationship in the service industry is critical for many reasons. Lovelock (1983) opined many services require ongoing relationship such as banking and insurance. Due to their intangibility, heterogeneity, perishability and inseparability of production and consumption, service quality becomes difficult to conceptualize and measure. Therefore, when marketing intangibles, the major concern of business managers becomes the provision and control of symbols and tangible clues used by the customer in evaluating the service. Quality is thus relative and subjective and depends on the perceptions and expectations of the customer with respect to service offering. Interest in service quality is blatant when one thinks about it. Poor quality places a firm at a competitive disadvantage. If its customers perceive quality as unsatisfactory; they may be quick to take their business elsewhere.

In India, many academicians and practitioners have highlighted the need for better service quality in banks. Mostly public sector banks have offered guidelines for improvement in bank services (Nageswar and Pramod, 1990; Nageswar, 1987; Gani and Mushtaq, 2003). These studies have also alarmed public sector banks that if the present trend of customer dissatisfaction continues unabated, they would loose their valuable customers to their competitors' especially private and foreign banks. Therefore, service quality trends today play an important role in banking services, because excellent service quality is not an optional competitive strategy which may or may not be adopted to differentiate one bank from another, but it becomes essential to corporate profitability and survival.

Service Quality and Relationship Quality

Service organizations are trying to find ways to enhance quality of service to satisfy their customers (Shemwell *et al.,* 1998). Service quality has been explained by Parasuraman *et al.* (1988) as the ability of the organization to meet or exceed customer expectations. Berry *et al.* (1988) contend that service quality has become a great differentiator and competitive weapon. Dabholkar *et al.* (2000) suggest that consumers tend to evaluate different dimension related to a service and eventually; they may form an overall evaluation of Service Quality. Saaser (1978) defines security, consistency, attitude, completeness, condition, availability and training as important attribute of service quality. In banking industry all such attributes are very pertinent and imperative to customers as possessions are very risky and customer concern is very much. The most important research in to service quality is strongly customer oriented, Zeithaml, Parasuraraman, and Berry (1990) identified 10 criteria consumers use in evaluating service quality (Table 1).

Table 1: Generic dimensions customer use of evaluate service quality

Dimension	Definition
Credibility	Trustworthiness, believability, honesty of service provider
Security	Freedom from danger, risk or doubt
Access	Approachability and ease of contact
Communication	Listening to consumers and keeping them informed in language they can understand
Understanding the Consumer	Making the effort to know customers and their needs
Tangibles	Appearance of physical facilities, personnel and communication material
Reliability	Ability to perform the promised service dependably and accurately
Responsiveness	Willingness to help customer and provide prompt service
Competence	Possession of the skills and knowledge required to perform the service
Courtesy	Politeness, respect, consideration, and friendliness of contact personnel

Source: Adapted from Zeithaml, V.A., Parasuraman, A. and L.L. Berry, *Delivering Service quality: Balancing Customer Perceptions and Expectations*, New York, The Free Press, 19990

In subsequent research, they found a high degree of correlation among several variables and so consolidated them in to five broad dimensions as Tangibles, Reliability, Responsiveness, Assurance and Empathy. Relationship quality is another criterion on which customer evaluates the services of the organizations. Relationship quality has been discussed as a bundle of intangible value, which augment products or services and results in an expected interchange between buyers and sellers (Levitt, 1986) Relationship quality also refers to customers perceptions on how well the whole relationship fulfils expectations, predictions, goals, and desires the customer has concerning the whole relationship (Jarvelin and Lehtineen, 1996). According to Johnson (1999) relationship quality describes the overall depth and climate of a relationship.

The banks in India formulate and implement various customer relationship strategies such as managing demand and supply during peak and non peak hours for smooth functioning of branches, investing in Internet banking, 24 hours call centers, ATMs and other channels to facilitate anytime, anywhere access, introduction of Dynamic Queue Management (DQM) system, Customer compliant management with latest software for tracking and sorting problems, online query management and query resolution, Relationship pricing, customization of products and services, retention measures, special treatment to HNI customers, wealth management and portfolio management practices and personalization.

Research Design and Methodology

The present study is exploratory in nature and attempt is made to know the factors affecting Customer's perceived service quality on relationship strategies of selected banks of Udaipur. More than 100 customers from few selected banks like ICICI bank and SBI bank were contacted but researcher could get 60 responses from them, and out of these, sample of 49 valuable customers from different segment selected with a purpose based on the judgment of the researcher's. Rests of responses were dropped due to discontented information. A non-disguised structured questionnaire was prepared in two parts and administrated to the respondents. Part I contains questions related to information on name, age, occupation, experience and educational qualification. Part II consists of 17 statements related to CRM practices to seek the responses on five point Likert scale. The respondents

Table 2: Demographic characteristics of sampled respondents

		Number of respondents (n=40)	Percentage
a)	Age		
	20-35 years	20	41
	35-50 years	19	39
	50+ years	10	20
b)	Education		
	Graduate	25	51
	Post Graduate	15	31
	Professional	9	18
c)	Experience		
	0-5 years	20	41
	5-10 years	10	20
	+10 years	19	39
d)	Occupation		
	Government	15	31
	Private	20	41
	Business	10	20
	Others	4	8

are asked to read and indicate the extent of effectiveness of CRM initiatives on five-point scale. The numerical value of scale is as per the requirement of the statement.

Analysis

Table 2 depicts the demographic characteristics of sampled respondents. It is observed those major portions of the respondents (41.00% and 39%) are in the age groups of 20-35 and 35-50 years. It can be further seen that most of the respondents (51.00%) are graduate while (31.00%) of the respondents are post graduates. Nearly 18.00 % of respondents are having professional qualification. Most of the respondents (59.00%) were working for more than 5 years and rest had the experience of less than 5 years. The sample represents more or less equal participation from different occupations.

Table 3 represents the statements showing variables of perceived service quality and relationship strategies adopted by banks. In order to analyze the data further, we have applied statistical technique i.e. Factor Analysis.

Table 3: Variables showing service quality scale

Variable	Description
V1	Extent to which you are satisfied by prompt services
V2	Extent to which you are shown personal attention
V3	Extent to which your specific needs are acknowledged.
V4	Extent to which your questions are answered by employees.
V5	Upto what extent Operating Business hours seems to be sufficient?
V6	Extent to which courtesy is shown by your banker towards you.
V7	Extent to which your banker shows interest in solving your problems
V8	Extent/up to what mark you are satisfied with the right services provide by your Bank.
V9	Upto what extent you are satisfied by the banker's assurance of keeping transactions and your valuables with safety and privacy.
V10	Extent to which your banker guarantees service to be accomplished with in time.
V11	Extent of Visual Appeals of physical facilities which attracts you.
V12	Extent to which you are satisfied by the information conveyed through Published material and Journals.
V13	Extent to which it is easier for you to move with the help of guidance signs on bank counters
V14	Extent to which you are impressed by the timeliness of providing you the needed information.
V15	To what extent location of bank helps you to approach quite easily and in time.
V16	To what extent the ambience in bank motivates you to frequently visit your bank.
V17	To what extent distance matters to you, for having business with your bank.

Factor Analysis

Data so collected was also subjected to Factor Analysis to bring out the important underlying factors of the service quality .Before this, testing of reliability of scale is important to show the extent to which a scale produces consistent results if measurements are made repeatedly. Cronbach's Alpha is most widely used method. Its value varies from 0 to1 and the satisfactory value is to be more than 0.6 for the scale to be reliable (Malhotra, 2002). For the present study Cronbach's Alpha value estimates to more than 0.7 this indicates high level of scale reliability. The principal component method, using Varimax rotation reduced the 17 statements to 4 factors. The Varimax rotated four factors are given in Table 4.

Table 4: Results of the factor analysis - component rotated matrix*

	Components				Extraction
	1	2	3	4	
V1	3.946E-02	.811	.260	.129	.743
V2	.176	.784	-1.212E-02	.280	.725
V3	.132	.676	-.191	-.114	.524
V4	.113	.380	-5.320E-02	.653	.586
V5	.313	.126	.108	.226	.177
V6	.843	-3.637E-02	7.176E-02	.106	.732
V7	.815	.304	-6.175E-02	2.232E-02	.761
V8	.414	.217	.568	-.103	.552
V9	.242	5.727E-02	.235	.685	.587
V10	-3.098E-02	.113	.619	.425	.587
V11	-.335	.196	.539	-.236	.497
V12	2.517E-02	-9.151E-02	.359	-.385	.286
V13	-.104	-.107	-.183	.635	.459
V14	-1.497E-02	8.998E-02	-.592	.1044	.370
V15	.261	.162	-.521	-6.396E-02	.370
V16	-.212	-.235	-.341	-5.027E-02	.201
V17	.699	8.344E-02	-.230	-6.582E-02	.553
Eigen Values	4.661	4.111	4.719	4.081	8.701
Proportion of total variance	0.2741 or 27.4%	0.2418 or 24.18%	0.2458 or 24.58%	0.2400 or 24%	
Proportion Common variance	0.53	.3938	.542	.469	To 100% or equivalent to 1

Extraction Method: Principal Component Analysis Rotation Method: Varimax with Kalser Normalization, * Rotation converged in 6 iterations

Generally, factor loadings greater than 0.30 are considered significant and loading above 0.40 are considered important and very significant (Hair *et al.*, 1990).

Table 5: Factors influencing entrepreneur development training effectiveness

Factor (Variance explained)	Loading	Statement included in the factor
F1: Convenience and Courtesy (27.41%)	.843	V6: Extent to which courtesy is shown by your banker towards you.
	.815	V7: Extent to which your banker shows interest in solving your problems
	.599	V17: Distance of Bank Branch
	.313	V5: Operating Business hours seems to be sufficient
F2: Customer Orientation (24.81%)	.811	V1: Extent to which you are satisfied by prompt services
	.784	V2: Extent to which you are shown personal attention
	.676	V3: Extent to which your specific needs are acknowledged.
F3: Tangibles & Timeliness (24.58%)	.568	V8: Extent/up to what mark you are satisfied with the right services provide by your Bank.
	.619	V10: Extent to which your banker guarantees service to be accomplished with in time.
	.539	V11: Extent of Visual Appeals of physical facilities which attracts you
	-.592	V14: Extent to which you are impressed by the timeliness of providing you the needed information.
	-.521	V15: To what extent location of bank helps you to approach quite easily and in time.
	-.314	V16: To what extent the ambience in bank motivates you to frequently visit your bank.
F4: Competence and Assurance (24%)	.653	V4: Extent to which your questions are answered by employees.
	.685	V9: Upto what extent you are satisfied by the banker's assurance of keeping transactions and your valuables with safety and privacy.
	-.385	V12: Extent to which you are satisfied by the information conveyed through Published material and Journals.
	.635	V13: Extent to which it is easier for you to move with the help of guidance signs on bank counters

Extraction Method: Principal Component Analysis, Rotated Method: Varimax with Kaiser Normalization (Rotation converged in 6 iterations)

It can be observed from Table 5 that four statements, namely, Extent to which courtesy is shown by your banker towards you, Extent to which your banker shows interest in solving your problems, Distance of Bank Branch and Operating Business hours seems to be sufficient, represent factor 1 which examines the “Convenience and Courtesy”. This factor explains around 27.41 % of the total variance.

Factor 2, is a combination of three important statements Extent to which you are satisfied by prompt services, Extent to which you are shown personal attention and, Extent to which your specific needs are acknowledged. These together accounts for 24.18 % of the total variance. It has been suitably titled as “Customer Orientation”. Further, as seen from Table 5, Extent/up to what mark you are satisfied with the right services provide by your Bank, Extent to which your banker guarantees service to be accomplished within time, Extent of Visual Appeals of physical facilities which attracts you, Extent to which you are impressed by the timeliness of providing you the needed information, To what extent location of bank helps you to approach quite easily and in time and To what extent the ambience in bank motivates you to frequently visit your bank load highly on factor 3 and it has been named as “Tangibles & Timeliness ”. It explains 24.58 % of the total variance.

Extent to which your questions are answered by employees, Upto what extent you are satisfied by the banker’s assurance of keeping transactions and your valuables with safety and privacy, Extent to which you are satisfied by the information conveyed through Published material and Journals and Extent to which it is easier for you to move with the help of guidance signs on bank counters have loading on factor 4. This factor has been labeled as “Competence and Assurance”.

Discussion

The results of factor analysis and observations made during study about effect of relationship marketing on customer perceived service quality are discussed as follows.

Convenience and Courtesy: Banks do take care to ensure a certain degree of service efficiency. Banks nowadays have become more responsive to complaint management. Also the banks heads make surprise visits in several branches from time to time and interact with customers and employees, so as to unearth customer’s problems if any. When these banks are celebrating anniversary of any of their branches, customers are invited and their suggestions are solicited. While doing business, nowadays banks have provided and extended liberal operating hours, so that neither their time is wasted nor their customers. CRM also to a large extent depends on the courtesy being shown by bank employees to their customers and success largely depends on this. Even some banks have developed a strategy to monitor the workings of particular branch, which their customers are fully satisfied and if they have any sort of problem, the same is given ample attention and these banks also tries to ensure that customers give in writing that they are satisfied with the problem resolution, so as to check on errant branch managers. Customers are nowadays very particular and do their business with those banks whose branches are located in their nearby vicinity. So banks in this regard are also doing their best in shortening of distances and traveling.

Customer Orientation: Banks put into practice several relationship marketing strategies which serve to enhance the service quality of the banks. Banks have taken steps to monitor the satisfaction of their customers and have come up with customized services like making segments of its customers. Relationship pricing strategies encourage customers to have multiple accounts and services with the bank. To retain their old customers and acquire the new, banks from time to time organize Bank- Customer Summits and give proper attention to customer's needs and grievances, if any. From time to time, these banks also organize meetings and training programmes for their employees to make them efficient and well acquainted in CRM practices.

Banks also have decided to do Quarterly Customer satisfaction surveys and newsletters are published as an outcome of it. Banks also provide different types of services to different customers as basically it depends on the deposits made by that particular customer. Customers of these banks also feel a sense of pride as, when they are given preference and personal attention; their special needs are acknowledged duly in time and also provided prompt services.

Tangibles & Timeliness: This is observed from the branches that they are neat and clean and even spacious with ample seating arrangements and reading materials for the customers. Services provided are:

- Banks provide free ATM services to its customer's. ATMs of the banks are networked all across the country and give customer the power to access their account 24 hours a day from anywhere in India. Banks have Phone banking and Internet banking services, wherein the customers can carry out a host of financial transactions. Banks send books of cheque deposit slips to customers and also have cheque deposit boxes, thus obviating the need of customers to spend a longer time than is necessary in branch premises.
- Banks also contracts sales agents who come over to customer's house and helps him in completing all the formalities of opening an account. Indeed in this competitive era, these banks provide quality and right type of services as and when needed by the customer in time. Also with this the appeals or gadgets used by the banks to attract more business is also noticeable. Though banks are located at distinct places but their location in and around business centre, super bazaars, plazas do attract business at large scale. Also the ambiences, behavior of staff towards customers help the banks to practice good CRM policies.

Competence and Assurance: Banks endeavor to reduce stress of customers by providing them full guarantee and assurance that their valuables will be kept secret and in safe custody. By depositing valuables in banks safe vaults, also increases trust and loyalty of bank and customers on each other. Banks provide guarantee to its full extent in above perspectives. A bank from time to time also publish various journals, newsletters and magazines and simultaneously mails the same to its customers and provide them the information about new products, services and latest activities in the banks along with their statement of accounts and other important inputs.. Moreover when a new customer enters a bank premise he/she is not aware of the fact that where is the cash counter, deposit and withdrawal window etc., So many banks have started to use help desk type of system to extend information about various counters in the banks. Also the usage of guidance signs helps the customer to work and find out the place of his interest in a bank branch.

Conclusion

Customer Relationship has become backbone for survival of organizations today. Effective implementation of CRM Strategies can dramatically improve relationship between banks and its customers and enhance brand value while mitigating risk and ensuring satisfactory returns. Banks should try to enhance customer experience by providing right information and services. The outcome of the research shows that organizations are understanding and embracing the concept of customization in a customer service context. In addition, the importance of customer service and relationship management is highlighted as a requisite for business success along with the use of information held on customers within an organization. It is an approach that will be of value to any bank seeking to build enduring customer loyalty.

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Satyam - a Case of Unethical Conduct and Fake Audit

J. P. Sharma

This paper presents the Satyam Case of Unethical conduct and suggests actions for the improvement of corporate governance in the country.

The Sanskrit word 'Satyam' in the name of Satyam Computer Services means 'Truth'. Did Satyam's Boss B. Ramalinga Raju while leading the company followed the spirit behind its name, certainly not? He on January the 7th, 2009 revealed some alarming truths that he was concealing for a long period by confessing to Rs 7800 crores ($1.47 billion) fraud on Satyam's balance sheet. He and his brother B. Rama Raju who was Satyam's managing director, had disguised all this from the company's board, senior managers and auditors for several years. The unfolding of the story behind the confession reveals the fraudulent and unethical character of a man who till very recently baged number of awards on good corporate governance.

On the face of it, New York-listed Satyam did everything by the rulebook, with an international firm auditing its books, declaration of accounts in accordance with Indian and U.S. standards, and the requisite number of independent directors with excellent credentials, including a Harvard business school professor (Krishna Palepu) and a former cabinet secretary (T.R. Prasad). The company's so-called growth at scorching pace blindsided the shareholders, regulators, analyst and experts. Nobody bothered to enquire into the true financial position of the company and the fraud easily escaped detection till Satyam's chairman B. Ramalinga Raju himself spilled the beans. Ironically after the scandalous confession by him, Satyam's failure has become an exciting case study of the biggest corporate governance failure in almost every business- school, college, university and specially the corporate world.

Unethical Conduct

Satyam grew rapidly in terms of scope and scale, but the internal controls and management oversight were unable to keep pace. Promoting subsidiaries including Satyam Renaissance Consulting Ltd., Satyam Enterprise Solutions Pvt. Ltd, and Satyam Infoway Pvt Ltd during the year 1996 appear to have been opportunistic rather than part of a robust, long-term strategic plan. B.

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Rama Linga Raju as founder chairperson, controlled all aspects of the company's strategy and operations, and appears not to have accepted input or criticism from other executives or board members. There was no explicit or implicit code of ethics surrounding Satyam's corporate culture; bribery, corruption, and exchange of favors, within and outside the company, appear to have occurred with frequency at various levels. It was too late when World Bank in the 3rd week of December, 2008 publicized Satyam's unethical work culture by announcing Satyam being imposed with charges of data theft and bribing the staff and was barred from business with World Bank for eight years for providing Bank staff with "improper benefits". Ethical standards thus in the company were poor. Both the CEO (current) and CFO have been charged putting self-interests ahead of the company's interests. They were actively selling large portions of their shareholdings in the company a few months before the confession of scandalous fraud. The company's most senior executives behaved unethically and routinely flouted the company's code of conduct. There was no evidence of basic moral conduct or behavior at the top levels of the company. Unethical behavior was a common characteristic among various senior executives, who exploited the company's resources for personal gain for several years. The internal controls appear not to have detected the fraudulent activities for an extended period of time. Along with dozens of other kinds of awards (annexure 1), Satyam has received the World Council for Corporate Governance's Golden Peacock Award for excellence in corporate governance not once but twice. Indeed, there is a strong case for World Council for Corporate Governance to assess its own methodology in selecting the winner for their awards. The Council's reputation is not protected by withdrawing the 2002 award today after the blunder has been done.

Investigations by the Crime Investigation Department (CID) of Andhra Pradesh Police and Central agencies into the multi-crore Satyam fraud have established that the promoters indulged in insider trading of the company's shares to raise money for building a large land bank. The funds thus marshaled by the former chairman B. Ramalinga Raju, his brother Rama Raju and their relatives were used to purchase lands in the names of 330 companies and about 30 individuals. All of them had equity participation in these entities, of which 327 were linked to the family. They have been charged to use money earned by offloading their shares in Satyam to purchase lands.[1] SEBI and Serious Fraud Investigation Office (SFIO) are also probing the sale of over 3.6 lakhs shares by senior company executives ahead of founder Raju's confession and the sale of 4.3 crore shares in December quarter of 2008 by financial institutions which were pledged by Raju and his family as collateral for loans from these institutions. Satyam's senior executives' encashed employee stock options (Esops) shares in the December quarter when the scrip was trading at Rs 264-150. Probing agencies are baffled as these deals were struck when the scrip was ruling far below its May peak of Rs 500. Soon after Raju's confession, the price fell to an all-time low of Rs 11.50.[2]

Although the positions of chairman and CEO/CFO in Satyam were separated but the findings of SFIO reveals that the chairman (Ramalinga Raju) and the CFO (Srinivas Vadlamani) were working in collusion to defraud the stakeholders for their personal gain. In the first half of September 2008, four months prior to the scandalous confession made by Raju, Srinivas Vadlamani suddenly offloaded 92,358 shares of Satyam in the stock market. This proves he had an inkling that the bubble could burst and hence sold off his ESOP holdings in a hurry. Now potentially liable to be charged for insider trading amongst other things, Vadlamani had become enormously rich in his long tenure at the company. Though not on the board of Satyam, Vadlamani used to exercise tremendous clout in the company matters and had total grip on the finance function. So he was one man who knew the insides of the company.[3] The findings of the investigations made it clear that Vadlamani was not only aware of the happenings in the company but was an equal partner in perpetrating the fraud. Incidentally Ram Mynampati, the new interim CEO also sold off shares of Satyam during that time.

A Case of Fraudulent Audit and Accounting Function

Both the audit function and accounting function in Satyam were fraudulent and opaque. The company, at the direction of some senior executives, routinely engaged in aggressive accounting practices in order to artificially boost share price. Investor's confidence in the company collapsed, when it became clear that their accounts were not only unreliable but fraudulent. PricewaterhouseCoopers (PwC)[4] as external auditor, failed to detect the company's problems and abuses for an extended period of time.

A week after Satyam founder B. Ramalinga Raju's scandalous confession, it was the turn of his auditors Price Waterhouse, which has been auditing Satyam's accounts from 2000-2008, admitted that its audit report is wrong as it was based on wrong financial statements provided by the Satyam management. The audit firm tried to shift the blame of its inaccurate audit report on the false statements given by the troubled IT Company.[5] Ideally, if the company claims it has cash on its hand, that should be enough signal for auditors to check whether that cash in hand is available or not; whether bank balance has been invested properly of not; whether internal control mechanisms are in place. There needs to be a physical verification of assets owned by the company rather than simply relying on the books prepared by the company. Hence it was required that the auditors (PwC) independently checked with the banks on the existence of fixed deposits, but this was not done for as large as a sum of Rs. 5040 crore. Another development which came under investigators lens was that between 2003- 2008, audit fee from Satyam had increased three times. Price Waterhouse received an annual fee of 4.3 crore for financial year 2007-08 which is almost twice as what Satyam peers i.e. TCS, Infosys, Wipro, on an average pay their auditors. This shows that the auditors were being lured by a monetary incentive to certify the cooked and manipulated financial statements. Events of such nature raise doubts about statutory auditors' discharging their duty independently and consequently on 24th January 2009, senior partners of

PwC, S Gopalakrishna and Srinivas Talluri were booked by Andhra Pradesh CID police on charges of fraud (section 420 of IPC) and criminal conspiracy (120B).[6] The fraudulent role performed by the PwC in Satyam [7] thus matches the role of Arthur Anderson in Enron collapse.

The PwC sympathizers claimed that collusive fraud is extremely difficult to detect therefore the auditors should not be subject to such ruthless treatment. Two partners in two different accounting firms, both in the Big Four League (Ernst & Young, Deloitte, KPMG and PwC), argue that the scope of an audit is different from that of an investigation. There is a clear distinction according to them between the work of an auditor and the investigation of a detective. The auditor's mind is unbiased unlike that of an investigator who approaches work with the presumption that a fraud has taken place. When the auditor stumbles upon something suspicious, he carries out more checks and additional verification, which still fall short of an investigation. Besides, an auditor does not guarantee the accuracy of a financial statement, he only expresses view that the accounts of a company give a 'true and fair picture' of the state and affairs as per the explanations given to him.[8] However, the findings of the interrogations on 28th January 2009 left the sympathizers speechless as the two auditors confessed their collusion with Satyam founder Raju and that they signed the balance sheet and profit and loss statement without verification and scrutiny. In addition to the charges faced in India, PwC is facing lawsuit filed in US district court by law firms on behalf of purchasers of the American Depository Receipts (ADR) of Satyam. The case alleges that PwC "recklessly disregarded" a multi- year massive fraud by the former management of Satyam and it failed to perform its audits in accordance with the requisite accounting principles. Disclosure of the fraud eroded the wealth of Satyam's shareholders; the ADRs have been currently trading just below $2, a steep drop from the company's 52- weeks high of $29.84[9] . Hence the auditors, PwC, on whom the general public relied on for accurate information not only failed in their job but themselves played a part in perpetrating fraud by preparing a clean audit report for fudged, manipulated and cooked books.

Following are the other common governance problems noticed in the Satyam's collapse that requires further look into:

- Carelessness on the part of the Board.
- Unconvinced Role of Independent Directors.
- Questionable Role of Audit Committee.
- Flawed Ownership Model.
- Dubious Role of Rating Agencies.
- Political Contributions Generated off the Books.
- Deficiencies in the Clause 49 of Listing Agreement.

Desired Policy Actions

The spirit in which corporate governance is taken matters a lot. It is about a mindset that ensures fairness, transparency, and accountability to every stakeholder of a company and such a mindset comes from one's culture, parentage, company of friends and what you see as success in life-money or power or respect. After the Enron debacle in 2001 and collapse of about half a dozen other big corporates, most American companies strengthened their audit and corporate governance practices. 4 out of every 10 Fortune 500 companies specifically appointed a chief ethics officer. Even small and mid-sized companies have begun appointing ethics officers. Such officers report to the CEO and are responsible for assessing the ethical implications of the company's activities, making recommendations regarding the company's ethical policies and disseminating information to employees. Now Indian companies will have to follow suit.[10] World's second largest body, the ICAI[11] is planning to set up a rating system for corporate governance ethics for listed as well as unlisted companies. The new code of conduct would be primarily for its members who will implement it in their respective organizations and among clients.[12]

IT industry body National Association of Software and Services Companies (Nasscom) has announced forming a corporate governance and ethics committee, headed by Infosys Technologies chairman N.R. Narayana Murthy. The committee will function as a permanent sub-committee of the Nasscom Executive Council and is one of the initiatives being taken by the trade body to strengthen corporate governance practices in the Indian IT-BPO (business process outsourcing) industry. The eight-member committee will include industry experts, independent directors and academicians as its members, and will meet at least thrice a year to formulate strategies and measure implementation schedule. The objectives of this committee include: sharpening the existing code of ethics, values and corporate code of conduct for industry and emphasizing existing regulations and practices on corporate governance. It will also develop and create awareness of best practices to be followed by the Board, audit committees and independent directors of organizations.[13]

Following kinds of other actions call for immediate attention to improve corporate governance in the country:

1. India should have independent regulatory body on the lines of the Public Company Accounting Oversight Board (PCAOB) in the US to watch over the work of auditors.
2. Many Indian companies retain their auditors for years, which results in 'collusion' between promoters and auditors. The demand for auditor's rotation is gaining ground after Satyam's fiasco and it is time companies in India change auditors periodically.
3. In a bid to prevent Satyam like accounting frauds, the Institute of Chartered Accountants (ICAI) should tighten the auditing standards in the country.
4. Since foreign accounting firms cannot do audit work in India because the country has not yet opened up this sector to foreign firms under WTO discussions, they tie up with a local audit firm to offer this service to their clients. There is a need to restrain all foreign audit firms from associating with domestic firms that do statutory audits in India.

5. There is a need to get company's internal audits reviewed by an outsider. Internal auditors are employees of the firm who can never work against the management; an outsider has no such obligation and therefore can do a fairer job.
6. There is a need to make the price sensitive information available to all other shareholders in case of pledging of promoter shareholding.
7. The market regulator SEBI should review the practice of nominating independent directors on a company board by the promoters, as this affects directors' independence. Independent directors in many cases are handpicked by the promoters and in most cases they are family friends.
8. Satyam scam has pushed up sharply the demand for the directors & officers (D&O) liability insurance cover. The D&O covers is designed for directors and officers in key decision-making positions or are handling large funds for the company. The D&O liability Insurance forms a core component of corporate insurance portfolio of major companies in the US and Europe. Infact 95% of Fortune 500 companies maintain such cover.[14]
9. There is a need to have close supervision, greater accountability and disclosure of rating methodologies of rating agencies.
10. There is also a need to have a kind of whistle blower policy that empowers the ordinary shareholders of companies to critically examine the decisions of the companies, and if they feel something wrong, complain to the government.
11. There is a need to have in place longer imprisonment provisions and larger fines for willful financial mis-statements and fraudulent acts on the part of senior management like the USA has in Sarbanes-Oxley (SOX) Act.

Conclusion

The Satyam fraud has shattered the dreams of various investors, shocked the government and regulators alike and led to questioning the accounting practices of statutory auditors and corporate governance norms in India. Severe corporate governance problems emerge out of the above mentioned corporate wreckage. Unethical business conduct and behavior, laxity on the part of board, failure of external audit, unfettered powers in the hands of the Chairman/CEO, lack of transparency, inadequate disclosures, fraud, lack of proper internal audit are the most common governance problems/ flaws noticed in the collapse of Satyam and many other such corporate failures in USA, UK and other parts of the world.. These countries reacted strongly to the corporate failures and codes & standards on corporate governance came to the centre stage. There is need to reform corporate governance in India too by taking harsh policy measures. Even though corporate governance mechanisms can not prevent unethical activity by top management completely, but they can at least act as a means of detecting such activity before it is too late.

End Notes

[1]The Hindu, Hyderabad, 01st February, 2009, p 7.

[2]Economic Times, 5th February, 2009, front page.

[3]Times of India, 10th January, p 23

[4]Globally, PwC is a major brand. Even in India, it is no minnow, with around 5000 employees, 400 partners, offices in nine cities and around 40 blue-chip clients. Known as India's oldest consulting business firm-PwC first landed on Indian shores in the late 19th century. Its client roster includes MNCs like Bayer, Bosch, Colgate, Novartis. Its list of homegrown companies' include-Reliance Power, GMR, Lanco, Reliance Infra, United Breweries, Max India, HCL, Mastek, Moser Baer and NIIT. PwC has had its share of controversies. They were the auditors of Global Trust Bank, which collapsed in 2004. after the collapse the RBI barred the PwC from engaging new clients that the PwC ultimately got relief from the Calcutta High Court.(Source: Outlook Magazine, 2nd February, 2009, page 54-55).

[5]Economic Times, 15th January 2009, p1

[6]Times of India, 25th January 2009, p 1

[7]After new Board replacing the Satyam, it has widened its search for a statutory auditor after snapping ties with the Indian unit of global audit firm PricewaterhouseCoopers (PwC). The Satyam is understood to have scanned a list of over two dozen Indian audit firms registered with the PCAOB of USA for short-listing. The firms registered with the PCAOB are authorized to audit accounts of NYSE-listed companies (including Satyam), reporting their financial statements under US Generally Accepted Accounting Principles (GAAP). The list has been sent to the Ministry of Corporate Affairs in India and the short-listed is yet to be done. (Economic Times, 13th March, 2009, p8).

[8]Gireesh Chandra Prasad, Economic Times, 29th January 2009, p 15.

[9]Times of India, 7th February 2009, p1

[10] Economic Times, 01st January, 2009, front page and p 16.

[11] The ICAI has a membership base of 1.50 lakh professionals and 4.50 lakh students.

[12] Economic Times, 06th March, 2009, p 4

[13] http://www.indiaprwire.com/businessnews/20090211/37901.htm

[14] Times of India, 04rth March, 2009, p 25

Annexure 1
Satyam's Awards and Achievements

Award	Awarded by
2008	
Asian MAKE Award	Teleos, in association with KNOW Network
UKTI Business Award for corporate social responsibility	UKTI
SAP Pinnacle Award 2008 under "Service–Ecosystem Expansion (Growth)" category	SAP
Best IR Website in the Asia Pacific & Africa region for providing complete, accurate and timely investor relations information	MZ Consult
Award for Best IT Practices in IT Sector	Amity Business School, Noida, India
2007	
Partner Innovation Award for AML solution	Pegasystems
Competitive Strategy Leadership Award for Offshore Testing Market	Frost & Sullivan
Asian MAKE (Most Admired Knowledge Enterprise) Award	Teleos, in association with KNOW Network
Indian MAKE (Most Admired Knowledge Enterprise) Award	Teleos, in association with KNOW Network
Award for "Strengthening Customer Relationships"	ITSMA (IT Services Marketing Association)
Winner of the First "Partner Innovation" Award	Software AG/webMethods
Ranked # 1 in the ASTD BEST Award	American Society for Training and Development (ASTD)
First Asian company to rank in *Training Magazine's* Top 125 companies for learning	Training Magazine
Citizenship Partner of the Year Award, 2007	Microsoft
Vision, Impact, Progress (VIP) Award, 2007	Computer Associates
Second-Best Employer in India	Hewitt India
The only IT Services company from India in the list of the TOP 20 Best Employers in Asia	Hewitt Asia
BML Munjal Award for Excellence in Learning and Development	Hero Mindmine Institute (part of the Hero group of industries)
2006-07	
TDWD Best Practices Award	TDWI (The Data Warehousing Institute) of North America
Top Asian Knowledge Organization	Most Admired Knowledge Enterprise (MAKE)

Third-Best Company to Work for in India	BT-Mercer-TNS
Award for most innovative recruitment practices	RASBIC (Recruiting & Staffing Best in Class)
Ranked in the ASTD Fourth BEST awards	American Society for Training & Development (ASTD)
Recognition Of Commitment (ROC) Award	The Institute of Internal Auditors, USA (IIA)
2005-06	
Winner, Corporate Citizen I award for Corporate Social Responsibility	*Business World* , FICCI, and SEDF
CMMI Level 5 Company-wide	SEI, CMU authorized Lead Assessor
ISO 27001 Global Certification	BVQI , UK
Forbes Top Asian Companies under US$1 billion	*Forbes Magazine*
Top 13 Best-Managed Companies in India	*Business Today* and AT Kearney
AS 9100/EN 9100 (Aerospace Standards Certification)	BVQI , UK
People CMM Level 5 Assessment, Pune facility	TUV Rhineland
2003-04	
Ranked Among Top 10 Best Companies to Work for in India	*Business Today* —Mercer—TNS Survey
Ranked Among India's Top 10 Best Employers, 2004 and 2003	CNBC-Hewitt Best Employers Survey
Best Risk Management and Solution Delivery	Gartner
Organization that Creates Fun and Joy at Work	HT Power Jobs Awards
2001-02	
National Award for Bright Ideas for Idea Junction™	Indian National Suggestion Schemes' Association
IT Offshore Service Delivery Program named "Industry Best Practice"	Aberdeen Group
Security Standards Certification BS 7799	International Information Security and Management Standards
Best Global Data Warehousing Solution	TDWI
First IT Company in the World Certified under ISO9001:2000	Bureau Veritas Quality International
Pre-2001	
SEI CMM® Level 5 Certification	SEI, CMU authorized Lead Assessor
"100 Leading Pioneering Technology Companies"	World Economic Forum